



# 'IRAQ.

## Report of the Financial Mission appointed by the Secretary of State for the Colonies to enquire into the Financial Position and Prospects of the Government of 'Iraq, 1925.

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*Presented by the Secretary of State for the  
Colonies to Parliament by Command of His Majesty.  
June, 1925.*

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# CONTENTS.

	PAGE.
GENERAL OBSERVATIONS ... ..	3
 PARTICULAR OBSERVATIONS AND RECOMMENDATIONS :—	
A.—REVENUE, ETC.—	
Land Revenue ... ..	10
Customs ... ..	15
Taxation on Businesses, Professions, etc. ... ..	18
Stamp Duties and Property Tax ... ..	22
Oil and Cotton Concessions ... ..	22
Foreign Trade and Exchange ... ..	23
Currency... ..	25
 B.—EXPENDITURE, ETC.—	
Government Staff ... ..	26
Health Service ... ..	28
Education ... ..	30
Agricultural Department ... ..	33
Posts and Telegraphs ... ..	34
Irrigation ... ..	37
Public Works Department ... ..	38
Municipalities ... ..	40
Tapu Department ... ..	41
Survey Organization ... ..	43
Pensions ... ..	43
Police ... ..	44
Defence ... ..	46
Ottoman Public Debt ... ..	48
Reliability of Estimates ... ..	50
EFFECT OF RECOMMENDATIONS ... ..	50
Ways and Means ... ..	52
C.—RAILWAYS ... ..	53
CONCLUSION ... ..	57
APPENDIX—Financial Agreement ... ..	58

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### Report of the Financial Mission appointed by the Secretary of State for the Colonies to enquire into the Financial Position and Prospects of the Government of 'Iraq, 1925.

To the Right Honourable L. S. AMERY, M.P.,  
*Secretary of State for the Colonies.*

1. On the 3rd of March, 1925, we were appointed by you to proceed to 'Iraq on a financial mission. The terms of our reference were:—

**“ To enquire and report to His Majesty's Government and to the 'Iraq Government what steps should be taken to ensure that it shall be possible to balance the 'Iraq Budget during the treaty period and afterwards, having regard to the requirements of the country for defence and security, administration and development, the provisions of the Financial Agreement and the obligations in respect of the Ottoman Public Debt imposed by the Treaty of Lausanne.”**

Having now carried out an enquiry at Baghdad into the present financial position and future prospects of the Government of 'Iraq, we have the honour to report to you as follows:—

#### GENERAL OBSERVATIONS.

(N.B.—*In this Report, all monetary figures are expressed unless otherwise stated, in lakhs of rupees. One lakh = 100,000 rupees. At the present rate of exchange, which is 1s. 5½d. to the rupee, one lakh = £7,448, and £1,000 = Rs. 13,420.*)

2. The history of the Budget of 'Iraq, in so far as it need concern us, is best shown by the following summary table of actual revenue and expenditure during the last four years:—

—	1921-22.	1922-23.	1923-24.	1924-25 (Revised Estimates).
Expenditure ... ..	572	479	418	460
Revenue ... ..	528	475	508	520
Difference ... ..	— 44	— 4	+ 90	+ 60

Thus the country's annual accounts, after resulting in a deficit, but a decreasing one, for two years, have for two years shown a surplus. The first point, therefore, to notice in answering the question, "What steps should be taken to ensure that it shall be possible to balance the 'Iraq Budget?" is that for two years it has balanced, and more. Had there been no substantial change in the state of affairs, there is no reason to doubt that it would have continued to balance. Unfortunately, there has been a substantial change. Two heavy new charges have to be met.

3. The first new charge is an obligation to bear a part of the burden of the Debt of the Ottoman Empire. The obligation owes its origin to the Treaty of Lausanne, and was recognised by the Government of 'Iraq in Article XVII of the Financial Agreement subsidiary to the Treaty of 10th October, 1922. between His Britannic Majesty and His Majesty the King of 'Iraq. The amount of the obligation is still uncertain, but it may be taken at 57.01 lakhs for 1925-26 (*see para. 103 hereafter*), to which must be added as arrears the sum of 23.24 lakhs in respect of the period 6th August, 1924, to 31st March, 1925, making a total charge of 80.25 lakhs.

4. The second new charge is for expenditure on the Army. By the Military Agreement of March 25th, 1924, subsidiary to the 'Iraq Treaty, the principle was recognised that the Government of 'Iraq should, in not more than four years, "accept full responsibility both for the maintenance of internal order and for the defence of 'Iraq from external aggression" (Article 1), the support of British forces being progressively reduced. In pursuance of this principle, it became necessary for 'Iraq rapidly to increase the size of its Army, and its cost. A programme of expansion was fixed by a schedule to the Military Agreement. In pursuit of that programme large fresh commitments for Military expenditure were incurred during the past year. During our investigations the programme has been re-considered and in a measure varied by a new arrangement between the two Governments. Taking the new arrangement into consideration, we estimate (*para. 100*) that the cost of the Army to 'Iraq in 1925-26 will be 135 lakhs. The actual expenditure on the Army in 1924-25 was only 101 lakhs. The Budget is here faced with an immediate additional burden of 34 lakhs.

5. If we take the Budget for 1924-25 as a basis, it is apparent that these two additional burdens must wipe out the surplus, and confront the country with a large deficit. The financial outlook is therefore a serious one. It has been our task to consider what can be done to close the prospective gap, by increasing revenue and by reducing expenditure.

6. The general result of our investigations is that there is no possibility of effecting immediately any such improvement under either head as would alter the general character of the Budget. 'Iraq is a small country of some 3,000,000 inhabitants. It

emerged recently from a foreign domination that was hostile to all progress. There has not yet been time for the secure establishment of public order. It lacks much of the apparatus essential for a developed State. It started life without a financial balance. As an independent State it has to support an administration which is necessarily far more expensive than its former one, with all the institutions of self-government, and those higher standards in the discharge of State services which are inevitably required of a progressive Government. The circumstances of the re-birth of the country have cast a heavy burden upon it in its infancy. History probably shows no instance of a State expected to do so much so soon.

Under these circumstances, the present scale of expenditure on social development and on the apparatus and organs of Government is not more in general than the country requires. It may be more than is possible, and indeed we recommend reductions in view of the financial circumstances; but it is not more than is desirable.

7. On the other hand, the revenue system does not permit the hope that any large increase can immediately be effected in the public revenues. A large part of these revenues, no less than 75 per cent., is derived from Land Revenue (31 per cent.), and Customs and Excise (44 per cent.).\* Land Revenue is quite inelastic. Its yield can be substantially increased, but only in process of time (para. 28). With the additions which we propose (para. 33) Customs and Excise will be bearing the heaviest burden of which they are capable. There is no other source of revenue to which to look for a substantial and prompt increase.

The whole machinery of Government is new and necessarily imperfect. The staff of the Government offices as a whole is necessarily lacking in knowledge and experience. Much has already been effected in raising the standard of efficiency, with the assistance of the British advisers. But it will take a good many years more, with the continuance of that assistance, before the machine will be capable of bearing any great additional burdens. In the meanwhile, to require of it the production of a big immediate increase in the revenue would probably result in a breakdown.

8. We have considered the prospects of the revenue from the point of view of the development of the resources of the country. Given a continuance of internal order and of freedom from external troubles, there should be an improvement, but it must be gradual. It would be imprudent to look for any swift increase. For the development of the undoubted resources of its soil, the country needs capital from abroad. Without foreign capital, there can be no general increase in its productivity. It is not to be expected that the foreign investor will trust his money

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\* Figures are from 1925-26 budget forecast.

into the new country freely and on reasonable terms until, with the passage of time, there is more positive evidence, in the eyes of the world at large, of its stability. Development by this essential agency must be a slow process, and it must depend to a large extent upon the relations from time to time between the British and the 'Iraq Governments.

The best hopes for the economic future of the country are in oil and cotton (paras. 46 to 48). Both hopes are no doubt bright: but they are not hopes for the immediate future. Neither can possibly materialise in time to give any important help to the budget in its immediate difficulties. In the matter of irrigation, moreover, there are difficult problems to be solved, before the way is clear for progress (para. 75).

9. It would be imprudent at the present time to count upon any assistance for the budget from loans for capital works on the unsupported credit of the Government of 'Iraq. The Government has excellent security to assign from the merely financial point of view. Mention may be made in particular of the Basrah Customs. But for the present the possibility of the Government obtaining a loan in the money markets of Europe on reasonable terms, or indeed on any terms, is in our opinion precluded by its political situation. The circumstance is of special importance because of the urgent need for capital for the railways (para. 116). We fear that at the present time it will be a matter of the utmost difficulty for the Government to obtain that capital without some support to its credit from an external source.

10. In this connection we desire to suggest the possibility of a guarantee by the British Government to the 'Iraq Government of a loan for railway works and replacements, and for bridges. Such a loan would bring orders to British industries. A guarantee would therefore be in accordance with the principle of the Trade Facilities scheme. Suitable special security might be found in the customs collected at Basrah, where the harbour is to be managed by a trust whose finances will be in substance under British control. The minimum amount required would be about £600,000 (80 lakhs)

If for any reason the guarantee of a loan to the 'Iraq Government be considered undesirable, an application to the Trade Facilities Advisory Committee for a guarantee might be made by the new Railway Corporation, the establishment of which we recommend (para. 119).

11. For the reasons given above, we are of opinion that the increase in revenue and the reduction in expenditure which would be effected by our detailed recommendations in the paragraphs which follow are the greatest which can immediately be made. In making those recommendations we have been guided by the principle that, in view of the serious financial outlook, it is necessary that 'Iraq should call a temporary halt in such services

as Public Works (paras. 82 and 84), Irrigation (paras. 77 and 79), Education (para. 61), and Agriculture (para. 67), that it should be content for the present with the substantial progress which has already been made therein, and should confine itself to maintaining the existing standards until financial circumstances permit further progress. The necessity is admittedly regrettable, but it appears to us to be imposed inevitably by the new burdens, and in particular by the growing cost of the Army.

12. The result is, that when all has been done that can be done in time to help, the budget of the country is still faced with a deficit in 1925-26 of 49.25 lakhs (para. 109). The resulting position should be clearly stated, as it presents itself to us. If the country meets the military expenditure that is contemplated by the recent arrangement between the two governments, it is very improbable that it can for the present meet the whole of its obligations for the Ottoman Public Debt. If, on the other hand, it meets the whole of its obligations for the Ottoman Public Debt, it is equally improbable that it can meet the whole of the contemplated military expenditure. Thus, if our anticipations prove correct, it seems that either a part of the Ottoman debt-charge must be left unpaid (perhaps to be funded by agreement with the Ottoman Debt Council); or the military programme contemplated by the recent arrangements must be substantially reduced.

13. To express an opinion as to which of these two objects of expenditure should be preferred to the other would be outside our province. There are, however, two observations which may pertinently be made. The first is that, in view of the uncertainty as to the amount of the Ottoman Debt charge for which 'Iraq is liable, it should not be impossible to make some fresh arrangement with the Debt Council (para. 104), which would prevent any contention that 'Iraq had made a default. The second is that the bill of 'Iraq for its army, heavily as it weighs upon the budget, is but a part of the total expenditure that is required for the defence of the country. The British Government is providing the bulk of that expenditure, in the cost of the Imperial forces in the country, and in the proposed subsidy (paras. 100 and 102). It cannot therefore be said that the expenditure of the Government of 'Iraq itself on defence is in excess of the requirements of the country.

14. In the preceding paragraph we define the issue as a question between the postponement either of military expenditure or of Ottoman Debt charge. It might perhaps be said that there is a third possibility, to make further wholesale reductions in the services performed by the State. In our opinion this is a possibility which should be dismissed from practical consideration. The reductions which we recommend appear to us to be the utmost that can be effected, if the Government is to continue to

discharge its essential functions. To do more would be to crush all hopes for the rise of the nation. It might seriously jeopardise the stability of the new State. It would be shortsighted policy indeed on the part of holders of Ottoman Debt to impose upon the State a burden that might crush it out of existence. Their prospects of payment are bound up with its continued existence and prosperity.

15. There are two matters in which the British Government has a direct interest in the finances of 'Iraq which we have had to consider in the light of the conclusions stated above. The first is Great Britain's ownership of the railways of 'Iraq. The second is the liability of 'Iraq, under Articles V-VII of the Financial Agreement to make an annual payment by way of a debt charge to the British Government in respect of certain transferred assets. Considering that, in our opinion, 'Iraq is confronted with a deficit which it will need heavy sacrifices to cover, we recommend that the debt charge in respect of transferred assets be definitely cancelled (para. II of Appendix), and that a substantial concession be made in respect of the railways, by way of a postponement of British claims (para. 119). These concessions will be of great assistance to 'Iraq; and the loss to the British taxpayer under the circumstances will be purely nominal.

16. It remains to make some forecast of the outlook for future years, after 1925-26. After that year, although exact estimation is impossible, it appears to us that, given internal order, freedom from external troubles, and a continuance of a helpful attitude on the part of the British Government, there is no reason why the position of the Budget should not steadily improve. But that is on the essential conditions that our recommendations are promptly put into force, and that there is no further increase in the size and cost of the Army or auxiliaries, after the addition of the two infantry battalions which it is contemplated to raise in 1925-26 (Nos. 6 and 7).

Our reasons for expecting an improvement are as follows. While on the one hand there may be no great prospect of any swift or considerable increase in revenue in the coming years, there is on the other hand no reason why there should be any substantial increase in general expenditure. Some normal increase there must no doubt be. It is a young administration, not yet fully grown. But that increase need not be other than gradual. It will be seen from our recommendations that the following services in particular must be expected to cost a little more year by year; the revenue and audit services, including customs; the work of survey and land settlement; provision for the Legislature; and the police, as the arm of the law is extended to fresh areas. To set against this, our recommendations, if adopted, will result in further reductions of expenditure and increases in revenue in 1926-27 and thereafter (para. 108), and further economies may be expected from the labours of the



Committee on staff, which we recommend (para. 52). The yield of taxes and duties, and, in particular, the land revenue, should improve, as the efficiency of Government staff is improved. On the whole, it is not unreasonable to expect that in these matters the growth in revenue will more than offset the net growth in expenditure. By the end of the Treaty period, in 1928-29, the normal burden of the charges for the Ottoman Public Debt will have decreased, in any event, by some 27 per cent., and may have decreased by some 36 per cent. (para. 103). If the cost of the military programme be not further increased, the expenditure on Defence will be reduced after 1925-26 by some 10 lakhs to 125 lakhs. It may therefore be said with some confidence that, if our recommendations be adopted, after 1925-26, the Government should find itself in progressively easier financial circumstances; and that the Budget should balance, and remain balanced, after 1926-27.

17. We desire to emphasise that the realisation of these hopes must be very gravely imperilled by any further expansion in the programme of military expenditure. By laying upon the budget further burdens for defence, the present financial stress may be indefinitely continued, and the work of civil government may be hindered, even fatally. Sound financial policy requires that there shall be no further increase in expenditure on defence beyond that contemplated as essential by the recent arrangement between the two Governments, at least until the finances of the State present a picture very different from that which they present at present. We are of opinion that under present conditions any further substantial increase in military expenditure must be inconsistent with the establishment and maintenance of national solvency.

18. We desire in this connection to refer more particularly to the additional Infantry Battalion (8th Battalion), the establishment of which in 1926-27 we understand to be contemplated if funds permit. At the present time, it would in our opinion be most imprudent to frame policy on the basis that funds would so soon permit of any further expansion of the sort. We draw the conclusion that such increases must not be contemplated without a prospect of further and equivalent financial help from external sources.

18A. We have assumed in this report that there will be no considerable change in the present frontiers of 'Iraq. An unfavourable decision on the question of the northern frontier must have a very serious effect upon the financial outlook. The areas involved are of great economic importance to the welfare of the State, and their exclusion from 'Iraq would alter the whole strategic problem of defence. In the absence of statistical information, it is not possible to make any arithmetical estimate of what the effect of diminished resources, coupled with increased cost of defence, would be.

## PARTICULAR OBSERVATIONS AND RECOMMENDATIONS.

### A.—Revenue, etc.

#### LAND REVENUE.

19. The first chapter in the Receipts Statement of the 'Iraq Budget is entitled "Land and Natural Produce Taxation and Revenue of Government Properties." If the figures for 1924 be taken, the revenue in this chapter amounts to 150 lakhs, or rather more than 30 per cent. of the total revenues of 'Iraq. Of this sum 109.5 lakhs appears under the heading of "Agricultural Produce" and 30.5 lakhs under that of "Animals." As the title of the chapter indicates, the revenue comprised in it has really a double character. It is partly taxation, and partly rent or profits. On "lift" or "rain" land (land which does not enjoy irrigation by canal) the Government has a claim to 10 per cent. of the gross annual produce if the land is alienated (*tapu* land), and to 20 per cent. if it is unalienated (*miri* land). On "flow" land (where there is irrigation without pumping) the Government claim as a general rule (for there are many exceptions) is to 20 per cent. of the gross annual produce on *tapu* land and 40 per cent. on *miri* land. We are informed that approximately 75 per cent. of the land under cultivation in 'Iraq is *miri* land, which will indicate how large is the Government's land-owning interest, and what an important item in the revenue that interest represents.

20. We believe that there is more prospect of a substantial increase of revenue under this head in the future than under any other, and we have considered whether any immediate action could be taken to produce or accelerate such an increase. The first expedient which suggests itself is the creation of a specialised revenue service throughout the Liwas, responsible directly and solely to the Ministry of Finance; but though such an arrangement would have obvious advantages, we are unable to recommend it. We recognise that, under present conditions in 'Iraq the assessment and collection of land revenue is something more than a straightforward financial task. It is a matter which enters closely into the whole social structure of the country, which affects tribal organisation and the position of the shaikhs, and which cannot be dissociated from general questions of policy in internal affairs. We do not think that the officers who are the principal instruments of that policy, the Mutesarrifs, the Administrative Inspectors, and the Qaimmaqams, could disinterest themselves in land revenue questions without losing touch with the feelings and interests of the various classes in the country to an extent which would very seriously impair their usefulness.

At the same time we are not altogether satisfied with the present division of responsibility in the matter of land revenue between the Ministries of Interior and Finance. The Revenue Department used to belong to the Ministry of the Interior. It now belongs—or the embryo out of which a Revenue Department might develop belongs—to the Ministry of Finance. But the local staff on whom it must rely, both for obtaining information and carrying out policy, and especially the Administrative Inspectors who constitute the nerves of district administration, appear to owe allegiance primarily to Interior. The Administrative Inspectorate Regulations contain admirable provisions requiring the Inspectors to carry out the instructions of the Ministry of Finance, to inspect and report upon the work of revenue assessment and collection, and to recommend improvements. But while we are assured that these officers take a keen interest in the questions connected with land revenue, and that the Ministry of the Interior consistently emphasises their importance, the great variety of duties and responsibilities resting upon them appears to leave them too little time and opportunity for concentration on revenue problems.

21. We think that the Ministry of Finance requires to be strengthened on the land revenue side by the addition of three British officers as Travelling Inspectors who should tour the country, being sent to review the whole machinery of revenue assessment and collection in any Liwa in which the results are unsatisfactory. It should also be their special duty to instruct and train the 'Iraqi personnel in work of this character. The annual cost would be, say, 1 lakh. There is every reason to believe, on the one hand, that this addition to the establishment would from the first bring in additional revenue that would out-balance its cost, and on the other, that any theoretical improvements in the revenue system will, in fact, be unproductive, if the present condition of understaffing on the revenue side is allowed to continue. We think that it is a matter for consideration whether the headquarters' staff of the Ministry of Finance should not be strengthened by the addition of a British assistant to the Revenue Secretary.

22. We believe that the whole question of Land Revenue in 'Iraq requires to be made the subject of special investigation. We can express with confidence the opinion that the present system is unsatisfactory and uneconomic. We are not qualified to design, even in outline, a system which would effectively meet the local conditions. But we think that some of the features which any such system should possess may usefully be indicated. It should embrace a general survey of 'Iraq, so that the areas and situation and boundaries of all land in the produce of which Government is interested may be known. It should embrace a complete registration of title, so that there should be no uncertainty whether a particular piece of land is *miri* or *tapu*, whether it is or is not subject to *waqf*, who is the person

responsible for paying Government its due, and what are the special rights and obligations, if any, of the *fellaheen*; and so that security of tenure shall be established. In this connection it has been pointed out to us that a recent survey in the Liwa of Basra has revealed that large areas had escaped taxation and that the increase of revenue in a single year covered the whole cost of survey. Further, we think that the principal aim of any new system should be the ultimate substitution of a fixed assessment for the present device of a proportionate levy on the gross produce.

23. We do not think it can be questioned that, as things are at present, the land revenue which reaches the Treasury is a very much smaller sum than the levy which is exacted from the cultivator in that connection. The Government share of 40 per cent. on *miri* and 20 per cent. on *tapu* land is a high one, (double what appears to have been the normal share in other parts of the Ottoman Empire), and we do not think that any proposal to increase the figure could be seriously considered. As a matter of fact, reform in Turkish times was generally in the direction of reductions, the effect of which was to bring in more money to Government. But while the collection of this share from the *fellah* rests with the *shaikh*, or landlord (*mallak*), an intermediate agent (*sirkal*), or a tax-farmer (*multazim*), and is probably conducted with efficiency, it must not be assumed that a like amount reaches the Treasury. Collection from the *shaikhs* and *mallaks* is often not made in full, and we find that in the Ministry of Finance there is a feeling that remission or non-collection has sometimes been due to political considerations. (On March 31st, 1925, it was calculated that more than 39 lakhs of land revenue were still outstanding, after allowing for remissions of nearly 16 lakhs during a period of three years; but we are informed that further remissions amounting to 20 lakhs will probably be authorised.) There are also obvious weaknesses in the system by which the Government share is assessed. The demand will be made on a powerful tribal *shaikh*, or landlord, or other local personality. The estimating committee consists of smaller folk who have no disposition to incur the hostility of men of substance. Sometimes it includes intending purchasers of the crop who hope that a pessimistic estimate may find its reward in a discount from the price. The Ministry of Finance can object to an estimate sent in, and set up a second committee to revise it, but the machinery seems to be complicated and ineffective; and in any case, the process of under-estimation must be very glaring indeed if it can be detected and arraigned from headquarters. This is a matter in which the services of the Travelling Inspectors whom we have proposed should be particularly useful. The evidence that the estimate of crops is almost always less than the reality was overwhelming. It must be remembered that the landlord and the *fellah* get their due share of the *actual* crop. It is only the Government which has to be content with a percentage of

an estimate, and if that estimate is too low the difference goes to the benefit of the landlord. Under-estimation, as well as slack collection, would seem to be clearly evidenced by the large fortunes amassed by *shaikhs* in districts where the Government receipts are trifling.

24. In some areas the system of *iltizam*, or tax-farming, is in force, and its wider extension is sometimes advocated. It saves trouble and it reduces friction. But we do not think that it is in the interests of government. The introduction of the professional *multazim* is often the introduction of a fresh source of trouble into a district. If the local *shaikh* or *sirkal* is the *multazim*, there is probably no competition at the auction, and the privilege of tax-farming is sold too cheap. Even when there is competition, a "knock-down price" has very often been arranged beforehand between the competitors. The *multazim* is required to give security to Government for the funds due from him. In practice, it is found that the security is invariably over-valued, and if it falls into the hands of Government it is a very inadequate set-off against the revenue lost.

25. Speaking quite generally, we were advised that corrupt practices were extremely widespread in 'Iraq—a circumstance which we put down as an inheritance from the Ottoman *régime*,—and that they permeated the whole system of revenue assessment and collection. If this is so, it furnishes a conclusive argument in favour of the substitution of a system of fixed assessment which would eliminate many of the opportunities for fraud. In any case, it may be pointed out that the levying, as tax, of a share of gross produce is a method which is economically unsound. It definitely penalises any extra expenditure which the taxpayer puts into the land, and therefore penalises that intensive cultivation, for the spread of which any real development of agricultural conditions in 'Iraq must wait. A fixed assessment, based on the natural productiveness of the land under normal conditions, would offer inducements to keener effort, increased expenditure on tools and equipment, and improvement of property. A proportionate tax on the gross produce discourages them all.

The system of fixed assessment or *muqtu'* is in actual operation in the Amara district, but we are informed that the assessment was necessarily prepared on most inadequate data, and was, in fact, little better than guesswork. It is accompanied in Amara by the system of *iltizam* or tax-farming, and there is every reason to suppose that the tax-farmers pay less to the Treasury, and extract more from the cultivator, than they should.

26. The "Government share," comprising both tax and rent or profit, is paid in cash and not in kind. A conversion rate is fixed by the Ministry of Finance. On this part of the process of tax collection there is little criticism to be passed. We were told that there were grounds for suspecting favouritism in the

fixing of special conversion rates for special areas based on alleged high cost of transport to market; but the district staff, especially if reinforced by Travelling Inspectors, should be able to supply accurate information which would prevent this happening. It was also represented to us that much trouble was sometimes caused by conversion rates for neighbouring areas being fixed on different dates, and, therefore, at different rates—for price fluctuations are rapid—though conditions are identical. We think that this is a real grievance, and we recommend that the conversion prices should be fixed on one date for the whole of 'Iraq, or, at any rate, for the whole of each one of a few very large zones into which the country might be divided.

27. The accounting and remittance machinery set up by the Ministry of Finance appears to be well-designed and efficient.

28. We anticipate a gradual increase in Land Revenue if the additional staff which we have proposed is appointed to make the machinery for its assessment and collection more effective. We look for a further increase if the country remains free from political disturbances and the sense of security continues to develop. We believe that in time it will probably be possible to obtain a very large increase of revenue under the head of "Land and Natural Produce Taxation and Revenue of Government Properties." But we regard a more elaborate enquiry into the whole system of land revenue than has yet been undertaken, and a complete cadastral survey of 'Iraq carried out with direct reference to a land settlement and land revenue policy, as necessary preliminaries to any such increase, and these preliminaries mean a programme of some years. We are therefore unable to forecast a large increase of land revenue in the near future, more especially as it seems probable that prices in 'Iraq are still on the downward grade, and the item of Land Revenue, like that of Customs and Excise, is directly dependent on the level of prices.

29. It has been suggested to us that considerable additional revenue might be obtained by the sale of Government lands, and we have given careful consideration to the proposal. The sale involves a realisation of capital assets at the expense of future revenue, which is not in itself a sound financial transaction; but it might be justified as a means of tiding over a period of difficulty, pending the development of other sources of revenue. In the case of agricultural land, a complete survey would be a necessary preliminary to sale, and the expense of this would probably eat up the proceeds of the sale. We do not consider that there is a free market in such lands. The disposal of large areas to single purchasers is not practicable; for it would entail the eviction of present occupiers, which would be beyond the powers, even if it were within the desire, of government. Sale to the cultivator is less open to objection. But the fact that the land revenue theoretically payable to government is seldom



actually levied in full makes the determination of a fair market price impossible. The cultivator, in fact, has nothing to gain except an increased security in tenure. He remains liable for a payment to government as large as the payment for which he has actually been called upon in the past; and there is no inducement to purchase uncultivated land and bring it under cultivation, because it is only in respect of cultivated land that the government share is collected. Moreover survey and registration are so incomplete that there is great uncertainty as to the actual occupiers of Government land who should be invited to purchase and great difficulty in guaranteeing a purchaser secure possession. We do not therefore recommend the sale of Government land as a general policy likely to produce large receipts. But we think that a sale of the Government date-gardens in the Basrah district is worthy of consideration as a special case, and that this particular class of land would gain in economic development if such sale were carried out, as the sum payable annually to government is a fixed sum per *jarib* (a measure of area) and not a proportion of the produce as in the case of agricultural land. We think that it would be reasonable to look for an additional receipt of 6 lakhs or even more (say 2 lakhs in 1925-26, the rest thereafter), from the pursuit of such a policy, accompanied by the revision of practice in the matter of *Badl al Mithl* which we recommend later (Para. 89).

30. A tax on animals (Koda) is at present collected at the rate of 1 rupee on every ox or camel and 8 annas on every sheep. There has been no increase in the rate of tax, but a steadily increasing yield from the same rate; and we think that there is every reason to believe that, within reasonable limits, an increased rate would give a proportionately increased revenue. Unfortunately, an abnormally severe winter has resulted in serious losses of stock, and we do not think that an increased rate could be imposed in the current financial year without arousing a sense of grievance and bringing about resistance to collection. We therefore recommend that the rates should be increased by 25 per cent., the new rates taking effect in the year 1926-7. We anticipate an additional revenue of 4 lakhs from this source, but we fear that in the current financial year there will be an actual decrease. In this connection, we are not satisfied that there is any good reason why the tax should not be levied on horses and cows, as well as on camels and oxen. The discrimination in their favour appears to be merely an inheritance from Turkish tradition, not based on any convincing reasons.

#### CUSTOMS.

31. Receipts from Customs and Excise form a large proportion of the total public revenues of 'Iraq (in 1924-25, 48 per cent.). In comparison with the other chief constituent of revenue, the Land Revenue, the machinery for their collection is simple and

efficient. This is, indeed, the only source of revenue in the country which can at present be considered as in any sense elastic. It is therefore in this direction that the Government must look for any immediate substantial increase in its resources.

32. Before deciding upon any increase in the rates of duty, it is no doubt necessary to feel assured (A) that the taxpayer can fairly be called upon to bear an additional burden in this respect, and (B) that an addition to the rates will yield a commensurate result in increased revenue, and will not end in disappointment owing to a reduction of trade, or to an increase in smuggling and in other leakages.

33. (A) The weight of Customs and Excise duties falls upon articles of general consumption, cotton piece goods, sugar, liquor, and tobacco. They are therefore taxes upon the people as a whole. In Turkish times the rates of Customs duties were no doubt lower (a basic 11 per cent. in comparison with a present basic 15 per cent). But account must be taken of the heavy Excise taxation of tobacco under the Régie. It has also to be remembered that what was brought to account by the Turkish Customs was by no means all that the importer paid. The increase in the present burden of Customs and Excise duties, in comparison with Turkish times, is certainly much less than is suggested by the very imperfect statistics of Turkish revenues from Customs. Against that increase, moreover, must be set the reduction in the burden of the Land Revenue, by the abolition of Turkish cesses, by the reduction of rates, as on rice, and by the decrease in illegal exactions. Comparing the best statistics available for the collection of Land Revenue in Turkish times (1910-11) and now (1922-24), we find that the reduction in its burdens may be considered as a very substantial offset to the apparent increase of Customs burdens. That the taxpayer gets better value for his money in security and in public services is certain. Perhaps the greatest improvement from his point of view, next to security for life and property, is equality in the collection of taxation, in contrast with the Turkish method of compelling the law-abiding to make up for the deficiencies of the lawless.

In general, the burden of taxation is undoubtedly less now than it was in Turkish times. Nor is it high on any absolute standard. If the population of the country be about 3,000,000, as is commonly supposed (though some authorities put it a good deal higher), the taxation per head was in 1923-24 not more than 17 rupees, an amount which does not suggest that the population is overtaxed, especially if it be remembered that a very large proportion of this taxation would in the economy of Western States appear as rent. Lastly, the basic rate of 15 per cent. is not high in itself. We consider, therefore, that, in view of the urgent need of the State for an increase in public revenues to meet essential services, an increase of Customs and Excise



rates is justified to an amount calculated to yield 30 lakhs additional revenue per annum.

We have satisfied ourselves that 30 lakhs of additional revenue can be raised by increases in rates which will be reasonable and fair. We do not desire to lay down any cast-iron scheme for such increases; but by way of illustrating the possibilities, we may mention that the sum can be obtained by an addition of 5 per cent. to cotton piece goods, tea and coffee, and certain luxury articles such as carpets, liqueurs, wines, and tobacco, yielding about 19 lakhs; with additions to Excise rates yielding about 5 lakhs; and an increase of 3 per cent. in the export duty on dates, yielding 6 lakhs.

34. (B) We recognise that caution is necessary not to place too heavy a burden upon the Customs administration. It is a young organisation, not yet fully developed either in experience or in supporting tradition. It has very difficult frontiers to guard, much exposed to smuggling on the desert routes and along the river boundaries. The Salt Excise presents special difficulties, due to the large number of natural sources. The large transit trade to Persia provides opportunities for fraud in false transit entries. On the other hand, the system has a great source of strength in the large proportion of dutiable goods which passes through the bottle-neck of Basrah. About 90 per cent. of the Customs revenue is collected on sea-borne goods. We observe that under these conditions the Customs revenue has answered well and flexibly to increases in rates in the past. We see no signs in the statistical returns that the critical point has been reached at which increases in duty yield no commensurate return in revenue, owing to increased leakages or decreased consumption.

35. We recommend, therefore, that an increase of customs and excise duties to yield an additional revenue of 30 lakhs should be made forthwith. It is of importance that it should be made promptly, in order to make up for the loss of revenue, estimated at 25 lakhs, which will be experienced in the coming year owing to the readjustment of arrangements as to transit duty, transit deposit account and bonding, which have been made to facilitate the Persian transit trade. Those arrangements are in our opinion prudent, but they have a serious effect from the point of view of the next Budget.

The increases in rates which we recommend may with advantage be made in the form of a surtax on existing duties, in recognition of the principle that the increase should be removed as an increased yield from other revenues, and especially from land revenue and direct taxation, permits. Further, in course of time, with the growth of stability, and with the hope for increase of trade from concessions for oil and cotton, from the return of the Persian pilgrim traffic, from the use of the desert route by lorries, from the development of the Mosul area by

improved railway transport, and from the opening of the northern routes, it may be anticipated that the customs revenue itself will show such an expansion as to facilitate the removal of the surtax.

36. The present tariff, which is modelled on that of India, is in some respects unsuitable to the needs of the country. We recommend that its revision should be undertaken at an early date, with the assistance of expert advice, in view of the difficult international questions involved, from the British Board of Trade and Board of Customs. We would make it clear that there is no reason to postpone the increases of rates which we recommend pending this revision.

In effecting a revision, we recommend a continuance of the policy, of which a beginning has already been made, of transferring the duties in suitable cases from an *ad valorem* basis to a fixed basis. On the present system the revenue must be unduly subject to undesirable fluctuations following the course of prices.

37. We have considered the policy of a concession of a tobacco monopoly to a private undertaking; but it appears to us improbable that under present conditions the State could make any terms with a *cessionnaire* which would yield it higher revenues from tobacco than it now collects for itself.

On a subsidiary matter affecting the customs administration, we refer to our recommendations in para. VI of the Appendix.

#### TAXATION ON BUSINESSES, PROFESSIONS, ETC.

38. There is at present in 'Iraq no direct tax on the profits of businesses and professions, or on salaries and fixed incomes. The population as a whole contributes upwards of 40 per cent. of the revenue in customs and excise duties. The agricultural interests make in addition a direct and important contribution of 30 per cent. of the revenue in the form of land taxes and "Government share" in the produce. But with the exception of a small contribution, amounting to about 6 per cent. of the revenue, in the shape of house tax and stamp duties, the professional and business classes, and the salaried classes, make no direct contribution. This is an obvious inequality in the system from the point of view of the taxpayer, and an obvious weakness, from the point of view of the State, in the capacity of the system for producing revenue.

The defect in the system should be repaired without delay, if only that the Government may not expose itself to the just criticism that it is preferring one class to another and suffering what may be called the urban interests to escape more lightly than the rural. This is indeed the more important of the two reasons for the reparation of the defect; for it is not possible to entertain any very high hopes as to the amount to be obtained from an income tax, or some substitute therefor, in the near future.

39. There are no doubt, at Baghdad, Basrah and Mosul, prosperous business interests, a considerable salaried class, and a small professional class. Some few of them are rich men even according to European standards; but their total taxable capacity is probably not very considerable. The majority of the merchants and brokers appear to carry on business with little or no capital and on very small margins of profit. For every transaction there is a large number of middle-men to share a very small gain. The whole volume of the business is not great. There is a further circumstance of the first importance that counsels caution in taxing such interests. The country is much dependent for its commercial prosperity on its transit trade with Persia, for which Baghdad is the emporium and the mart. We estimate that about half of the capital employed, and of the profits earned in commerce, are employed and earned in that trade. If those profits be overburdened, a risk is run of driving the transit trade into other channels, to the grave detriment of the general prosperity of the country. 'Iraq's share of this trade is far greater than it was before the war, when Russia was probably the main avenue into Persia. This avenue will almost certainly attain to importance again, and Persia is making strenuous efforts to make the direct "all-Persian" route through Mohammerah, which already shows some advantage in point of cost, the regular line of approach.

40. A further consideration counsels caution in the expectations founded on such taxation. Experience teaches that an effective tax on profits or income, whatever may be its form, is a thing of slow growth. Years must be spent in the perfection of revenue machinery and in the accumulation of knowledge concerning the circumstances of individual taxpayers before it gives a satisfactory yield. The growth is likely to be especially slow in 'Iraq, where the methods of business are still in an early stage of development, and where revenue officials are consequently at a great disadvantage in obtaining the information required for assessments.

Nevertheless, it is undoubtedly necessary that an immediate beginning should be made with the task. Although no considerable yield be obtained in the first few years, the ground is being prepared for an efficient tax.

41. As to the nature of the new taxes, to be fair all round they must provide for an equal burden of taxation on salaries and fixed incomes, and on profits from businesses and professions. The basis of assessment must be as simple as possible, to suit the undeveloped nature of business organisation in the country, and to limit, as far as possible, the opportunities for evasion. The only local precedent for taxation of the sort is the former Turkish Temettu, now abolished. It consisted of a tax of 5 per cent. on the earnings of public utility companies, 3 per cent. on salaries and wages, and a tax on the profits of trades and

professions, assessed on the rent of the place of business and on the number of employees, as "signs of wealth," the rate varying according to the class of town. This tax was a conspicuous failure. In 1914 it produced 1.6 lakhs only for the Baghdad Vilayet.

Clearly this precedent is of little value. For a guide in designing a direct tax, it is more profitable to consider the experience of other countries, in a somewhat similar stage of development, which have struggled with the task. One lesson of such experience is that it is useless to try and impose at first a scientific income tax, based on actual income and profits. Their ascertainment involves refined calculations, which over-burden the revenue officials and provide too much scope for evasion. Another lesson is that, if the tax is to yield anything in early years, it is essential to enlist the help of the taxpayers themselves, or their representatives, in bringing profits to assessment; and that, in order to effect that purpose, it is necessary to make it in their own interests that the amount brought to assessment should be as big as possible. Lastly, experience teaches that the initial rate must be low, in order that the taxpayer may be gradually accustomed to the full burden that is fair, and may not, as it were, be frightened into hiding.

42. Bearing these lessons in mind, we offer some suggestions as to a system of direct taxes for 'Iraq :—

- (a) The Minister of Finance informs us that a general registration of all professions and businesses is a preliminary necessity. We agree. There are no postal directories, or any other means by which the officials can tell who are liable to the taxes, or where to find them.
- (b) For the first year or two, the assessments on businesses and professions will have to be frankly arbitrary. Those liable should be divided into occupational groups by areas, and the individual assessments should be fixed by the officials on the best information which they can obtain. Groups should be encouraged, and even required, to form representative committees to assist the assessors.
- (c) Those liable should be required to supply information as to their businesses. Although, for the first year or two, the information supplied would not necessarily form the basis of the assessments, it is thus that the ground can be prepared for a scientific tax. We recommend, in view of the difficulties attending a tax on actual profits, that the information required should be as to total turnover, with the intention that, when the accumulation and correction of the information is adequate, the tax should take the form of a turnover tax.

- (d) We recommend that for the present the law should fix, not the rate of tax, but the basis, and the amount to be raised. This would work as follows : the assessors would fix the relative capacities of the individuals, expressed as their turnover, although that turnover would be fixed at first in an arbitrary manner. The Ministry of Finance would then decide, by a simple calculation, the rate of tax needed to realise the amount authorised to be raised. The adoption of this method (which has worked well under somewhat similar conditions elsewhere) makes it strongly in the interest of those liable, and of their representative committees, that as much as possible should be brought to assessment. Each becomes concerned to see that his neighbour makes a fair return.
- (e) There should be a tax on salaries, to be deducted by the employer. We recommend 3 per cent. as an initial rate, with a minimum limit of salaries of Rs. 200 per mensem.
- (f) The rates for both taxes should be flat rates at first. A reasonable graduation may be introduced as the efficiency of the machine increases.

43. It remains to make some recommendation as to the amount which the law should fix as the amount to be raised by the tax on businesses and professions. Statistics for a scientific estimate of the contribution that can fairly be required from these sources are not available. But considering the distribution of the population into town and country, and such information as we have been able to obtain as to the amount of capital employed in business, we consider that under existing conditions the contribution should ultimately be round about 15 lakhs. The beginnings, however, must be gradual, and it would be undesirable to fix more than 5 lakhs to be raised in the first year.

The tax on salaries may yield some 3 lakhs. Deducting 10 per cent. for cost of collection, the yield of the two taxes in the first year might thus be about 7 lakhs. But it is clear that this can be no more than a guess, and that it would be imprudent to count upon such a return until there has been actual experience of the taxes. We have therefore thought it prudent to expect a yield of 5 lakhs only from both taxes in the present year for the purpose of our general calculations.

#### *Corporation profit tax.*

44. It appears to us equitable that companies incorporated under the law of 'Iraq, and foreign companies carrying on business in 'Iraq, should make a special annual contribution to the revenue in respect of the privilege of incorporation and of limited

liability. Such companies should be able to produce books from which can be ascertained their actual profits earned in 'Iraq. We recommend therefore that there should be a corporation profit tax, based upon actual profits, at whatever flat rate may be found necessary, when the profits have been assessed, to raise 1 lakh in the coming year. A graduation may be introduced later if experience shows it to be desirable.

#### STAMP DUTIES AND PROPERTY TAX.

45. We have considered the revenue derived from these sources, in order to form a judgment whether any increase therein is possible and desirable. We do not recommend any change in rates at present. The customary course of business dealings, as regards the bulk of transactions, is still somewhat primitive, and that makes stamp duties hard to collect. An increase in rates would probably serve at present only to increase evasion. Property tax (house tax) has but recently been transferred to the State from the municipalities (para. 85), and the machinery for its collection, still new, cannot bear at present any general additional burden. More will be gained as to these revenues by improving administration than by increasing rates. As to the house tax, it appears to us that the efficiency of administration would be increased by appointing more responsible officials as chairmen of the assessment committees. More inspection of assessments and collections is required in secondary towns. It is desirable that the minimum limit should be made to vary with the class of the town. But the chief need of the tax is for an immediate and careful general re-assessment, and for periodical re-assessments. As the administration of the tax is improved, we are of opinion that it will bear an addition of 2·5 per cent. to the rate (yielding about 5 lakhs).

We refer in this connection to our recommendation in para. 87, as to the addition of cesses to this tax in substitution for grants in aid to Municipalities.

#### OIL AND COTTON CONCESSIONS.

46. We find that considerable expectations have been raised of additional revenue arising from two concessions recently granted, the Turkish Petroleum Company's concession, and the Asfar concession in connection with irrigation and cotton-growing projects. We hope that 'Iraq may in the future derive a large revenue from oil; but it would be rash to regard it as a certainty. The operations of the Turkish Petroleum Co. must remain practically at a standstill until the determination of the northern frontier. Thereafter there must be long-continued

prospecting and, if the results of prospecting justify it, the construction of a pipe-line to the Mediterranean. We do not anticipate that the 'Iraq Treasury will receive any appreciable revenue from the Turkish Petroleum Co.'s operations for another seven years, and we have therefore left them out of consideration.

47. Hopes with regard to the Anglo-Persian Oil Co.'s operations in the " Transferred Territories " are less golden but probably nearer to realisation. We understand that an agreement has not yet been concluded with the Company to regulate their relations with, and liabilities towards, the 'Iraq Government, and that matters are left on the very unsatisfactory footing that the old " D'Arcy Concession " from the Persian Government applies to this territory (which was Persian when that concession was granted) and defines the Company's rights. There ought to be a definite understanding, or rather a contract, as to the rate at which royalty is payable to the Treasury so soon as oil is produced, and we recommend that an earnest endeavour should be made to effect a settlement of any points of difference still outstanding with the Company, and to issue to them a definite concession. Oil may be produced at Naftkhanah in the near future. On the other hand it may not be, and in the absence of any means of framing an estimate of probable receipts from royalty, we have left this possible source of revenue out of our calculations.

48. In the case of the Asfar concession there are schemes of great irrigation works costing large sums of money. But for the present nothing is in progress beyond cotton cultivation on some 600 acres of land previously irrigated, and the immediate result to Government is that it will receive 11 per cent. instead of 40 per cent. of the gross crop. We are aware that the 40 per cent. must be regarded as a theoretical claim rather than as a probable receipt, and that 11 per cent. of a large figure may be bigger than 40 per cent. of a small one. But the big irrigation projects are for the future, and before they are carried out there is more work to be done on the general principles underlying irrigation, drainage, and soil survey. We can therefore make no assumption that there is likely to be an early accession of revenue to the Treasury from this source, and we have not taken any such possibility into account in our calculation.

## FOREIGN TRADE AND EXCHANGE.

49. The relation between the imports and exports of a country throws light upon its economic state and the prospects of its public revenues. It is of special interest in 'Iraq, which depends for so large a proportion of its revenue on Customs Duties. The facts are suggestive.



Following figures show net Imports and Exports (*i.e.*, re-exports excluded) ; for the last three years :—

	1922-23.	1923-24.	1924-25.*
Net Imports ... ..	969	879	890
Net Exports ... ..	370	422	423
Difference ... ..	599	457	467
† Expenditure in 'Iraq for Imperial Forces (approx.).	410	370	270
Apparent excess of Imports over Exports.	189	87	197

\* Preliminary figures.

† This expenditure is considered as an "invisible export."

Customs returns show that this apparent excess of imports over exports has been covered by the export of currency. The returns as to movements of specie are not sufficiently complete to serve as a basis for an arithmetical calculation, but they leave little doubt that in 1922-23 and 1923-24 currency was exported to a value much exceeding the apparent excess of imports, while they indicate that in 1924-25 the exported currency was less in value than the apparent excess. The explanation of this state of affairs is not far to seek. Money poured into the country during the days of its occupation by large British Forces. Since then it has been running out again. It has been sent abroad partly to pay for goods, partly for remittance, by natives of India in particular, and it may be partly also for foreign deposit, or even investment. Now the spare money that flowed in during the palmy years is beginning to run low. The country last year was still exporting currency to pay for the bulk of the excess of imports ; but to some extent it seems to have been paying for them by drawing upon whatever cash or credit it had abroad.

Thus the country is overspending itself. It is consuming more than it produces. If this state of affairs goes on, it must have a serious effect upon the general prosperity. It must mean a shortage of currency and credit, falling prices, and a declining import trade. Already indeed prices have a downward tendency, the rupee in Baghdad is at a discount of 1 per cent. on the rupee in Bombay, and the discount rate in Baghdad is rising. A continuance of the process means bad times, and a diminution in the purchasing power of the people. The effective remedy is rigorous economy on the part of all classes, and of the Government in particular, so that the production of the nation may be more, and not less than, its consumption.



## CURRENCY.

50. The currency of the country is the India rupee, in the paper and metallic coinage of the Government of India. It has been brought into the country by the British occupation, mostly to meet the expenses of the Imperial Government, in quantities more than sufficient to meet the country's needs. As mentioned in the preceding paragraph, there has been hitherto a surplus for export. The Government of 'Iraq, through its bankers, replaces worn notes with fresh ones from Bombay, at its own expense (about 0.5 lakhs per annum). This is the whole currency system of the country.

In our opinion it is a system that is adapted to the present needs of the country, and we do not recommend any change in it in the near future. The silver rupee has the confidence of the people. It is very doubtful how they would receive any substitute.

Dependence on an external source of currency may seem a disadvantage, but it is by no means wholly so under present conditions. It puts an efficient automatic check upon a situation such as that referred to in the preceding paragraph, where there is overspending and an excess of imports. Since there is no internal source of currency, a continued export of rupees must inevitably result in course of time in a reduction in the purchasing power of the people which puts an end to the overspending. The check thus administered would, of course, be much too severe and arbitrary for a highly developed manufacturing community. It is not unsuited to an agricultural community such as this in the early stages of its development.

We have heard little or no complaint of the present system on economic or financial grounds. There is on the other hand some desire that 'Iraq should have its own currency on national grounds. We are of opinion that the time has not yet come for such a measure. The establishment of a national Bank of Issue would be premature. That being so, the only sort of national currency which it would be prudent to contemplate would be an 'Iraqi rupee supplied in effect by the Indian Government, or an 'Iraqi sterling-rupee supplied in effect by the British Government. Either must be costly and might be inconvenient. The change to either of such currencies from the Indian rupee would, from the point of view of the gratification of national sentiment, be rather nominal than real. There is therefore in our opinion nothing to be gained at present by such a change, to set against the great disadvantage of unsettling the population in a matter in which so much depends on habit and on the confidence which is born of habit.

## B.—Expenditure, etc.

### GOVERNMENT STAFF.

51. The bill of the Government in the Budget of 1924-25, for the salaries of civil servants was 146 lakhs (26 per cent. of total estimated expenditure). That for police salaries, including headquarters, was 53.7 lakhs (9 per cent. of total estimated expenditure); and that for military pay, including headquarters' salaries, was 55.3 lakhs (9.5 per cent. of total estimated expenditure). These three headings thus accounted for some 44.5 per cent. of the total estimated expenditure in that year. This constitutes a large area of the total field that must be searched for economies. It is an area in which economies yield more than in any other. It needs therefore the most careful scrutiny.

We are confronted with an initial difficulty. In the high pressure of business attending the establishment of a new State, time has not yet served to place the organisation of the civil service upon a settled basis. *Cadres* have not yet been fixed for the various ministries, their departments, and local establishments. The grades of the service and their rates of pay have not been defined. Statistics as to *personnel* are deficient. The Ministry of Finance has now power to control increases in numbers and rates; but existing rates and numbers have been established without central control, according to the needs of the place and the moment. In considering the civil service from the point of view of efficiency and economy we are therefore considering an equation the essential terms of which are uncertain. It is impossible at present to apply any general comparative tests.

52. The first need is that *cadres* should be fixed, and grades and their rates of pay defined. The process will bring to light the regions, if any, in which there is overstaffing, or overpayment, relative or absolute. It will involve prolonged labour. A *cadre* commission appointed for the purpose has found itself unable to perform the task. We doubt whether the officials of the Government can spare time for it from their essential work. We recommend therefore that external assistance should be enlisted, and paid for if necessary. Egyptian experience would probably be found a useful qualification. The assistance also of some responsible member of the commercial community of Baghdad might help much as to rates of pay. We are of opinion that a committee containing these elements should be constituted forthwith.

The committee should not only submit a scheme to fix the *cadres*, grades, and rates of pay, together with such ancillary matters as regulations governing pensions, entry, promotion, and retirement. It should also make specific recommendations as to the reductions in the present *personnel* and rates of pay, if any, required in order to carry out its scheme, and to effect the maximum of economy consistent with efficiency.

It is urgently necessary that this work should be promptly undertaken and pushed to a conclusion. Although, as said, the means to form a conclusion on such matters are now lacking, we see reason to believe that there is overstaffing in the lower clerical grades of the service. In spite of the general reduction in rates of pay effected on the recommendations of the Economies Committee in 1922, there is, we believe, still scope for legitimate economies in this respect also. The cost of living has fallen since then, and the rates were originally fixed without any close relation to those prevailing for other comparable employment in the country. In expressing this belief we have not lost sight of the circumstance that elsewhere we recommend a small direct tax on salaries, with a low limit of exemption.

53. The regular establishment of the *personnel* of the Government offices on the most economic basis must await the result of the labours of the Committee which we propose. In the meanwhile we have to call attention to a matter which demands immediate action. It appears to us that there is room for a prompt reduction in the numbers of Government servants of the class drawing pay on the lowest scale (30/60 rupees per mensem).

In 1924-25 there were employed some 1,400 menials (excluding the lower-paid staff of the Health Department), costing about 7.0 lakhs per annum; together with 493 messengers and Farrashes employed in the local administration of the Liwas, costing 2.8 lakhs per annum; 800 Qolchis, or Armed Messengers, employed by the Ministry of Finance, costing 5.5 lakhs per annum; and 359 Qolchis employed by Customs, costing 2.3 lakhs per annum.

We are persuaded that these numbers are extravagant, and we recommend their immediate reduction. A more liberal standard in respect of menials must no doubt be allowed than in the case of a western government. But, according to any reasonable standard, we believe that it should be possible to effect an immediate reduction of at least one-third in the number of menials, Messengers, and Farrashes. The resultant saving would be 3.3 lakhs in a full year, and about 2.5 lakhs in the first year.

Further, the work of the Qolchi is of a sort that can be done by the Police, and Police are available. We are of opinion that by a more economic use of the Police the number of Qolchis in the employment of the Ministry of Finance might be reduced by at least a half, and we recommend that this be done. The resultant saving would be 2.8 lakhs in a full year, and about 2 lakhs in the first year.

The reductions recommended in this paragraph should be looked upon as a first step, pending the labours of the proposed Committee. It may well be that the Committee will be able to recommend that they should be carried further.

54. The matter of the employment of British officers needs special mention. At present the number employed is about 155. Under the British Officials Agreement, subsidiary to the Treaty,

the number of officials to be employed on long-term contracts has recently been regulated in accordance with a schedule. We call attention in this connection to our recommendation in paragraph 21, as to the employment of Financial Inspectors, and to our recommendations in paragraphs 67, 79, and 84, respectively, as to reductions in the departments of Agriculture, Irrigation and Public Works. It may prove that, in consequence of these reductions, fewer British officers are required for the departments in question than are specified in the schedule. With these exceptions, we are of opinion that the regulation referred to is the best that can be made in the interests of economical administration. We consider that the number of officers to be employed according to the arrangements contemplated should be treated for the present as an absolute maximum, admitting of no increase.

55. As to Military and Police, we recommend that their rates of pay should be considered by the Committee proposed above. Whilst recognising the difficulty which results from the slightly more attractive terms offered by the British Government's force of Levies, we are not wholly satisfied that the 'Iraqi soldier's and Policeman's pay is not too high. Finally, we must not fail to point out that the best hope for economy in this region lies in conscription. It is estimated to result in a full year in a saving of 20 per cent. of the Military budget. On the policy of conscription we are not qualified to express an opinion. We must confine ourselves to the observation that, confronted with a formidable and increasing burden of expenditure for defence, the Government cannot afford to dismiss the possibility of so big a saving without the most serious consideration.

#### HEALTH SERVICE.

56. The approved estimate of expenditure of the Health Service for 1924-25 was Rs.21.98 lakhs. In a revised Estimate based on later information the expenditure is put at Rs.21.65 lakhs. Against this the original estimate of receipts was 1.95 lakhs, leaving the net cost of the service at 20.03 lakhs. Assuming that this figure for receipts remains unaltered, the revised "net estimate" would be 19.70 lakhs. The gross estimate of the Department for 1925-26 is 21.17 lakhs. This, if the same figure as before can be taken for receipts (a point on which we are without information), means a net estimate of 19.22 lakhs. This figure, which approximates to 4 per cent. of the total revenue of the country, is a substantial charge upon the public treasury, and we have considered whether any reduction in it should be made. Taking the district organization, we find that there is a Civil Surgeon to each Liwa. Not all of these are British officers. There is one Indian Civil Surgeon, two 'Iraqis, and one Syrian. Kirkuk alone has an Assistant Medical Officer. Taking the area and population of 'Iraq into consideration, we cannot regard this as an excessive provision or suggest that it could be reduced

without peril to the community. In Baghdad itself there is a sufficient (probably an excessive) number of private practitioners; but outside the few towns it is not possible to make a living out of private practice. Consequently the Civil Surgeon stands alone. Turning to the institutions, there are First Class Hospitals at Baghdad (250 beds), Basrah (150 beds), and Mosul (157 beds). There are First Class Isolation Hospitals at Baghdad (150 beds) and Basrah (150 beds). There are ten Second Class Hospitals with 320 beds in all, and five Third Class Hospitals with 42 beds in all. A total of 919 beds (excluding isolation hospitals) for a population of at least 3,000,000 cannot be described as excessive. In 1922 there were some 1,600 beds. The reduction to the present figure followed a recommendation of the Economy Committee of that year. Nor are we disposed to criticise the provision of 48 civil dispensaries or out-patient clinics. It is important to impress on a population such as that of 'Iraq the lesson that "peace, order, and good government" contribute some tangible benefits, as well as an enhancement of prestige, and we believe that the Health Service does much to bring this home to the people.

57. We were somewhat inclined to question the provision of "Specialist Institutions" which, if quarantine services be included, involve an annual cost of 3.37 lakhs.\* It cannot be questioned that some of these institutions are of an ambitious character for a country of the size, population and resources of 'Iraq. Even a lay observer can realize that the Anti-rabic Institute, the Vaccine Lymph Institute, the X-Ray Institute, and the Ophthalmic Department of the Royal Hospital at Baghdad take rank for equipment and management among the foremost institutions of this character in the world, and may be disposed to ask the question whether 'Iraq can afford such luxuries. But before any edict of retrenchment in work of this character is issued, the special circumstances and dangers of 'Iraq must be considered. It is a country where a number of fell diseases—small-pox, bilharzia, malaria, trachoma and other eye ailments, and rabies—are endemic, where the perils of plague and cholera epidemics are imminent,† and where typhus is a regular visitor. It is a country which has dangerous neighbours; warning of the cholera epidemic in Persia was not received until it was long overdue. It is a country where the arrangements for water supply are primitive, where great pilgrimage centres like Karbala, Najaf, Samarra, and Kadhimain constitute inevitable foci of infection, and where religious practice and tradition and social custom place many obstacles in the way of isolation and prophylaxis. The cost of the specialist institutions is considerable, but we think it must

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\* This figure includes the Chemical Department (21,900), which does a great deal of work for other Government Departments—Justice, Public Works, Customs, &c., &c.

† Plague as a rat-disease is endemic in 'Iraq.

be regarded as an insurance premium against dangers the cost of which can hardly be measured. We do not think that the expenditure on these institutions can be described as lavish. Full use is made of 'Iraqi practitioners and 'Iraqi pharmacists, and the European nursing staff is kept down to a minimum.

58. For relief to the public treasury we should look rather to additional revenue than to reduced expenditure. We think that localities where hospitals and dispensaries are provided should be required to pay the rent, or the rental value, of the premises occupied, and that a saving of some 29,000 rupees might be effected in this manner; and that the practice of allowing free treatment in "paying wards" and in the nursing home attached to the Royal Hospital in Baghdad, on political grounds, should be discontinued. The attempt to throw the whole cost of hospitals and dispensaries upon local funds has been made and had to be abandoned. We do not recommend its renewal. But 'Iraq is a remarkable contrast to Palestine in the absence of any hospital provision from religious or charitable sources. With the exception of a single Jewish Hospital (of 100 beds), the cost of all hospitals and dispensaries in 'Iraq falls upon public funds. We may draw attention in this connection to the large property and income held for charitable and religious purposes under the head of Waqf in 'Iraq. We believe that it is by no means improbable that the religious and humanitarian feeling of the nation may before long require that some part of this should be devoted to the maintenance of the sick and infirm in the hospitals. A spontaneous movement of the sort might have very beneficial effects on the Health Services. The Health Service of 'Iraq is probably unique in a Muslim country, and the nation may well feel that no worthier object can be found to receive help from its religious charities.

The recommendations which we have made do not enable us to look for an immediate reduction of more than Rs.50,000 in the *net* cost of the Health Service; but if the suggestion of a substantial Waqf contribution bears fruit, a more considerable reduction should be possible in the future without any impairment of a public service of which we think that Iraq is entitled to feel proud.

59. We desire to remark in this connection that we regard the arrangements regarding the Health Service of 'Iraq as giving most complete effect to the principles of Article 22 of the Covenant of the League of Nations, which contemplate the rendering of advice and assistance by an experienced to an inexperienced nation; and that we welcome the application of those principles in the field of public health, which is so pre-eminently an international interest.

#### EDUCATION.

60. The expenditure of the Ministry of Education for the current financial year was estimated on behalf of the Department at



23.79 lakhs. This compares with a latest figure for "actual" expenditure in the preceding year of 21.35 lakhs. But the estimate for the current year of 23.79 lakhs does not include "new services" costing 2.5 lakhs for which the Department was seeking, but had not yet obtained, authority. The total expenditure for which the Department seeks authority is therefore 26.29 lakhs, an increase of nearly 5 lakhs over the latest figure for the preceding year. We do not wish to express any doubt of the exceeding value of educational services to 'Iraq or of the pressing need of such services in which the population stands. The country has suffered from centuries of educational starvation, and it stands at a point in its career as a nation when the development of knowledge and understanding in its future citizens is almost the greatest need of the moment. We are glad to learn that there has already been substantial progress beyond the Turkish standard, that this is especially visible in the increased number of teachers and pupils, and that the necessity of training 'Iraqis for the work of teachers is realised and already to some extent met. We see no reason to doubt that the country is "getting value for its money" in the expenditure on education, and there is no branch of the public service which we should be less willing to see restricted. But the "Report on Education in 'Iraq in the year 1923-1924" emphasises "the necessity of some sort of compromise between the educational and the economic need of the country," and we are reluctantly constrained to subscribe to the same doctrine. Experience elsewhere has shown the great rapidity with which expenditure on education increases unless economy is applied as a positive policy, and not merely as a corrective check. In the present circumstances of 'Iraq, there are few proposals for educational expenditure which could be confidently vetoed as undesirable or even as unnecessary. We think that many must nevertheless be vetoed, and the reason must be found in financial necessity, to which educational necessity must yield.

61. It appears to us that the soundest policy for the immediate future would be the fixation of a definite figure for the total educational expenditure in each of the next few years. We think that this figure could probably be put at 21.5 lakhs, which is a trifle more than the latest figure of actual expenditure for 1924-25. This involves the exclusion of all the "new services," costing  $2\frac{1}{2}$  lakhs for a first year, for which approval is sought; and it assumes that a saving of a further 2 lakhs in the Budget as framed by the Department can be effected. Experience shows that the Department is inclined to overestimate, by making provision for all possible adverse and no possible favourable contingencies, and by allowing margins on a large number of items. Indeed, in this it is no exception. We believe that a mere process of pruning, without substantial reversal of policy, can effect a considerable reduction in its estimates. On the other hand, our recommendation leaves the Department with a provision for

more than it actually spent last year, which may seem to be undue liberality. But the case of the education budget illustrates a circumstance for which insufficient allowance is sometimes made, namely that a "new service" is often a child of rapid growth and voracious appetite. We are assured that the increase in the education figures for this year represents nothing more than the inevitable development of services initiated in former years. Schools open for a few months last year will now be open all the year; four year courses of instruction will now have for the first time their full contingent of attendances, for this is the fourth year; and so on. This circumstance has led us to propose what we regard as the somewhat liberal figure of 21.5 lakhs. On the other hand it leads us to urge a very close scrutiny, with an eye to ultimate cost, of any proposals for new services which recommend themselves as being desirable and in the first instance not costly.

62. We are so sensible of the value of education to 'Iraq, that we have considered whether there is no means of supplementing from other sources the money which we think it possible for Government prudently to devote to it. In expenditure on education at home, the Central Government is in partnership with local authorities. The Baladiyahs and the administrative councils in Liwas do not possess large resources or incomes, but we think that some money might be obtained from this source, if preference in the provision of educational facilities were given to the localities contributing something to cost. In the towns, a surtax on the property tax would be an obvious, and we think a sound, way of levying such contributions.

63. We note that 'Iraq has not made all educational provision free. Fees are charged in Secondary Schools (Rs.30 per annum) and in the two top classes of Primary Schools (Rs.15 per annum). The receipts at these rates are very small (about Rs.50,000), and we think that some increase should be possible. A benefit for which some payment is made is sometimes more appreciated because it costs an effort, and when provision of educational opportunities for all the population of school age cannot be made, there is some ground for giving preference to those who are prepared to pay for it.

64. We recommend that the figure of 21½ lakhs, which we have recommended as the "ration" for educational expenditure, should be a net figure, and that an excess over it should be allowed, in the gross figure, equivalent to the amount of any contributions by local authorities and payments of fees by pupils, brought to account as revenue. In this connection we suggest that the fees charged in the Law School should be raised to the figure necessary to make that institution self-supporting.



## AGRICULTURAL DEPARTMENT.

65. The following figures (in lakhs of rupees) illustrate the cost of the Agricultural Department :—

1922-23 Expenditure (Actual)	...	...	...	6.84
1923-24 „ (preliminary actual)	...	...	...	5.41
1924-25 Revised Estimate	...	...	...	6.44
1925-26 Departmental Proposals	...	...	...	7.63

In the present financial position of 'Iraq, nothing short of a plea of urgent necessity can justify a programme of increasing expenditure in any Department. We do not think that such a plea can be made good by the Department of Agriculture. On the contrary, we think that a substantial reduction should be found possible on the revised figures for 1924-25. We do not doubt that, were large sums available, they could be usefully spent in experimental and research work, in propaganda and education, as well as in practical tasks like the destruction of locusts. But the problem for 'Iraq to-day is, not to find useful ways of spending the money that she has, but to see whether there are any services with which, useful as they may be, it is possible to dispense.

66. We find that the department's programme for 1925-26 includes expenditure of Rs.35,000 on demonstration of threshing machinery, Rs.5,000 on an agricultural exhibition, and Rs.5,000 on the importation of foreign rams with a view to an improvement in the quality of 'Iraq wool. We do not wish to suggest that all these are not commendable enterprises, but we think that they can wait. It cannot be supposed that they will produce any material results in the reform of agricultural methods in 'Iraq in the current year, whereas their effect on the current year's budget is appreciable. A reorganisation of the department is also proposed, the cost of which is put at Rs.39,000. We are by no means satisfied as to the wisdom of the scheme. The general administrative organisation of the Ministry of the Interior in districts cost in 1924-25 (budget figures) 25.61 lakhs. We think that the organisation which stands for such an expenditure should suffice for carrying out all the executive work of Government in districts, and that any attempts of departments to create a separate district organisation of their own should be viewed with disfavour. On the other hand, there is good reason to question whether it is not a mistake to undertake advanced technical research in 'Iraq, as such work can be done more efficiently elsewhere, and the results are available for use in 'Iraq. We are inclined to think that the difficulty of showing results to justify the headquarters' expenditure has had some influence in producing a programme of expenditure in districts which it is even harder to justify. It is obvious that to effect a real improvement by such means of agricultural methods in 'Iraq would require an immense network of Government agencies and activities; and we are not

aware that such a programme is attempted in any country. We therefore recommend that the Rs.39,000 proposed for reorganisation in the 1925-26 budget should be cut out, and also the administrative staff in connection with the locust campaign costing Rs.28,000, as we consider that the district staff of the Ministry of the Interior should be able, with the help where necessary of the Police and the Qolchis of the revenue departments, to carry out this work.

67. We think that the general policy with regard to the Agricultural Department should be to restrict its activities to headquarters and the Government Farm at Rustam, and further to limit those activities to such as the Inspector-General thinks can profitably be undertaken in 'Iraq. We recommend that a cut of 3½ lakhs should be made in the expenditure proposed for the current year, reducing the budget provision necessary to, say, 4 lakhs. We should hope for a further reduction of one lakh in the following year. We think that the rationing principle which we have recommended in the case of Education might usefully be applied to Agriculture also.

#### POSTS AND TELEGRAPHS.

68. The receipts and expenditure on this service show the following figures :—

—	1922-23. (Actual.)	1923-24. (Pre- liminary actual.)	1924-25. (Revised Estimates.)	1925-26. (Estimates.)	1926-27. (Including new services proposed.)
	Lakhs of Rupees.	Lakhs of Rupees.	Lakhs of Rupees.	Lakhs of Rupees.	Lakhs of Rupees.
Receipts... ..	28·0	29·5	31·4	29·3	29·3
Expenditure ... ..	43·3	28·1	31·2	27·7	30·9
Surplus ... ..	—	1·4	0·2	1·6	—
Deficit ... ..	15·3	—	—	—	1·6

We think that it should be regarded as a fundamental principle that the Department of Posts and Telegraphs should pay its way; that is, that the charges made to the public for services rendered should at least cover the cost. But we do not think that this principle, which we believe that the Department fully accepts, sets a financial standard high enough in the case of 'Iraq. There is a widespread feeling in all countries that Postal and Telegraph service should be supplied at cost price and should not become an indirect means of taxation. But when revenue is needed so badly, and the possible sources of revenue are so limited, as in 'Iraq, we are clearly of opinion that the Postal and Telegraph service should be made, if it can, to be a profit-earning enterprise. In fact we think that the proper measure of the rates to be imposed is the ascertainment, if necessary by experiment, of what the traffic will bear. In other words, an increased

rate is justified so long as it brings in additional revenue. It is not to be condemned because it is unpopular or a restriction of facilities.

69. We have been informed that the programme of the Department for the current year includes much new construction work (to the value of 2.87 lakhs) undertaken at the instance of other departments, and that if this work were excluded the estimate would show a surplus. We recognise that the Post Office must do some work, *e.g.*, in providing telegraphic communication with, and even postal collection and deliveries in, remote districts, which cannot be justified as a business proposition. We have considered whether Departments asking for the provision of such services should be required to bear the cost on their own budgets, but on the whole we think that this would lead to unnecessary complication in accounting and provoke interdepartmental dissensions, and would only serve the purpose of enabling the Post Office to show better figures, without resulting in any reduction in the services in question. In fact, a department would content itself with an offer to pay for a service demanded, without having to convince the Department of Posts and Telegraphs that the demand was reasonable. We do not therefore recommend the adoption of this arrangement.

70. We are struck by the very large reduction which it has been found possible to effect in the Posts and Telegraphs establishment. The numbers have fallen from 2,210 on April 1st, 1921, to 838 on April 1st, 1925. But it appears to us that political and personal considerations play some part in the selection of candidates for appointments, and as we regard the quality of the *personnel* as a factor of first-rate importance in the general efficiency of the service, we recommend that no appointments of any kind be made without the concurrence of the Inspector-General, who is executive head of the service on its technical side, and should be responsible for the selection of the tools with which he has to work.

71. The internal postal charges, with a minimum rate of 2 annas as compared with India's 1 anna, are probably as high as they can be made without reducing the traffic and consequently the receipts. The internal telegraphs are not remunerative but the lines have been constructed largely at the instance of the Ministries of Defence and Interior, and the services must be maintained even if they result in a loss. We think that, on the principle of charging what the traffic will bear, experiments might be made with increased charges. On the same principle, we recommend that charges for foreign postal traffic should be brought up to the maximum allowable under the International Postal Convention, and that the proposal to frame Overland parcel charges on a scale which involves the receipt by the Posts and Telegraphs Department from the public of sums rather larger than those payable to the contractor should be re-considered with a view to its adoption.

The Overland service constitutes such a remarkable addition to the means of communication that we think that it will probably bear a higher charge without any resulting diminution of traffic.

72. The charge for telephone service is levied by means of an annual subscription or rent, with half-rates for private residences as against business or professional premises, without any additional charge for calls. This is an antiquated system, and the substitution of a lower rent-charge, coupled with a charge per call made, would undoubtedly bring in increased revenue. But the apparatus of the telephone service is also antiquated, and such a change could only be made if the apparatus were replaced. We find ourselves here faced with a difficulty that is constantly recurrent in 'Iraq. Capital expenditure from loan funds would bring in additional revenue in excess of the loan charges; but 'Iraq is not in a position to borrow or able to find credit. We can therefore only recommend that, if and when it becomes possible to raise a loan, the telephone service should be re-equipped with apparatus which will enable the system of charging a toll on each call to be introduced. We also recommend that there should be a close scrutiny of all cases in which subscriptions for telephone service at private residences are paid by Government Departments. The Department of Posts and Telegraphs is not concerned to limit such privileges, as it is credited with the amount of the subscriptions; but the privilege is one which may easily be conceded too freely, and we are of opinion that the number of cases in which the payment by Government of the charge for a telephone in a private residence is justified by any public necessity could probably be counted on the fingers of one hand. We are informed that, so far as a calculation is possible (and it is not easy, because officers of the Department often perform a variety of duties), the telephone service pays its way and therefore satisfies our first principle.

73. There is some reason to believe that in the case of this Department the Ministry of Finance have carried the principle of centralisation of financial control to a point which means the employment of unnecessary staff. We have not had an opportunity of enquiring closely into this, and we confine ourselves to recommending that there should be a close examination of the relations between the two Departments with a view to the elimination of any regulations or requirements which complicate procedure, and thereby make it more expensive, without really safeguarding the public revenue.

74. If the changes in rates which we have recommended are put into operation, we think that it should be possible to bring in an additional 2.5 lakhs of revenue, and thereby to work to a profit of one lakh instead of the deficit of 1.5 lakhs which is shown at present if the new services are provided for. Failing this, we think that the only alternative is the curtailment of expenditure on the new services by a like amount, but in the long run this would probably prove to be a less advantageous

course. A profit of one lakh should be regarded as the minimum which can be accepted for the current year, and we should hope that this figure will be increased in future years.

#### IRRIGATION.

75. Great civilisations have been maintained in 'Iraq in the past by means of irrigation. What man has done man can do, and the hope that by means of irrigation large areas of her soil now desert may some day be restored to cultivation is a reasonable one. But it is a hope that must be slow of realisation. We are deeply impressed with the magnitude of the problems to be solved before a general policy as to irrigation can even be framed. There is no surplus of unemployed labour waiting to be settled on new land. Salting of the soil is a grave question. We are informed, for instance, that lands newly irrigated by the Yusufia and Saklawiyah canals, which are the chief works recently carried out, already show a diminishing return owing to this cause. Expert opinion points as a remedy to the necessity for drainage schemes to accompany schemes of irrigation, but the problem is admittedly one for which the solution is at present in doubt. Further, sufficient hydraulic and soil surveys are not yet available for estimating the utility of particular works, far less for the framing of a general policy. Under these conditions we are strongly of opinion that it is premature to undertake any fresh works of irrigation until the problems to which we have referred have been solved, and until the preliminary information which is necessary in the matter, for instance, of surveys, has been accumulated by the studies of experts.

76. Programmes of expenditure on new works of irrigation amounting to 16 lakhs have been carried out in the course of the past four years, together with 8.5 lakhs for new works of flood protection. A further programme for such works amounting to 7.91 lakhs has been put forward for 1925-26. We gravely fear that much of this expenditure, actual and proposed, will prove to have been made upon an inadequate basis of knowledge, and to have been wasted. Prudence dictates that all schemes of fresh expenditure should be postponed pending expert inquiry, and that the work of the Irrigation Department should be strictly limited for the present to the maintenance of existing works, and to the conduct of the inquiries necessary in order that a general policy may be framed. Delay will have a further advantage. Works of irrigation on a large scale are works in which it should be possible to interest private capital. One large concession for the purpose has already been granted. The stability and confidence which are essential for the attraction of private capital need time for their growth.

77. We recommend, therefore, the definite postponement of all fresh works of irrigation. We include in this recommendation both those works which have not yet been finally authorised,

but are proposed for the present year, amounting to 7.11 lakhs (= whole programme of 7.91—0.80 for works of preservation), and those works which have been authorised, but have not yet been begun. The prospective cost of the latter category amounts to 3.6 lakhs. It includes as its principal item work on the Shairshubar (Yusufia) canal, and lesser works on the Hasseiniyah canal regulator. Our recommendations would thus result in relieving the budget for 1925-26 from a burden of expenditure of 10.71 lakhs. Our recommendation as to postponement does not apply to the work of repairing the Hindiyyah Barrage which is now in progress, and which we regard as essential for the preservation of an existing work of proved utility. The above figures allow for the continuance of that work according to the present programme.

78. It has been stated to us that some of the works whose postponement we thus recommend, such as the expensive Daghara Barrage scheme, the cost of which (4.0 lakhs) is included in the programme of 7.91 lakhs for new works, will serve an indirect purpose in moderating tribal disputes and promoting civil order. This contention involves matters of policy upon which we are not qualified to form a judgment. But whatever the force of the contention may be, it appears to us that it must yield to the over-riding principle that public revenues must not be wasted. We are unable to convince ourselves that civil order will be promoted in the long run by any attempt to buy peace, however indirectly it may be sought to effect the purchase.

79. If our recommendation for the postponement of fresh works be adopted, it will be possible to effect a substantial reduction in the staff and the cost of the Department of Irrigation, for the period during which the labours of that department are confined to the maintenance of existing works and to scientific enquiries. We estimate that reduction at 4.5 lakhs per annum, of which about 3.0 lakhs should be realisable in the present year.

We desire to make it clear that we do not question that the future of irrigation in 'Iraq is full of hope, and that a sound policy for developing works of irrigation must be a chief concern of the Government of the country. Our recommendation in this connection is designed only to prevent the waste of public revenues upon schemes undertaken before sufficient knowledge is available to ensure that they are well designed. Costly failures, the result of premature action, can serve only to prejudice the future prospects of the country.

#### PUBLIC WORKS DEPARTMENT.

80. It is the function of this Department to execute the permanent works required by other Departments. Its principal activities are in bridging works, and in building Government buildings, including Government Offices, Police Barracks, Jails, Schools and Hospitals.



The buildings of the Government, and the bridges, have been inherited from the Turkish Government with its primitive ways, or were temporary structures erected during the war. In size, number and convenience they are undoubtedly inadequate on any standard, however low. Something has been done for their improvement. In the course of the last four years 49.4 lakhs has been spent on buildings and bridges, by way of original works. Much more remains to be done on buildings before the State services can be considered to be adequately housed. As to bridging work, the country is the land of rivers. The desert provides good natural roads, but they are intercepted in parts by innumerable watercourses. Improvement of transport and communications is thus chiefly a matter of bridging : and the firmer establishment of civil order, which much depends upon better communications, may be said to be a matter of bridging also.

81. A programme involving the expenditure during the next four years of 57 lakhs on bridging (including 2 lakhs for metalling main roads) and 56 lakhs for building has been made out by the Department, as a goal towards which to work. We do not question that even a sum so large might be quite prudently expended on these purposes, were the money there to spend.

Under present conditions, however, the money is not there. It often happens that a State, or an individual, has an opportunity of making an excellent investment, that will yield a good return, and soon repay the outlay ; but the investment cannot be made, because there is no money with which to make it. Such is the state of affairs as regards this outlay on public works. The investment is an excellent one. It would give a good return in better services and more economical administration. But in the present state of the resources of the country, funds cannot be spared from revenue for the investment. Nor in the present state of the country's credit can the funds be borrowed. In our opinion, therefore, there is no choice but that fresh public works should be postponed until the necessary means are provided by an increase in revenue, or a reduction in expenditure, or both combined, or until an improvement in the credit of the country enables it to borrow for the purpose. We consider that expenditure on many of the works contemplated is of a capital nature, and that it would be sound policy to wait for their performance until they can be financed from a loan fund, rather than to place the heavy burden of their cost upon the revenue of the State at so early a stage in its development.

82. At the present time the Department is carrying through a programme of new works estimated to cost 9.3 lakhs, of which 6.3 lakhs is for buildings, 2.5 lakhs for bridges, and 0.5 lakhs for other works. Of these, works estimated to cost 4.3 lakhs have been authorised but not yet begun, (including 1.8 lakhs for Government offices and various buildings, and 2.5 lakhs for bridging). We recommend, in view of the exceptional financial

difficulty of the present time, that all these works not yet begun should be postponed. Further, under the heading of "Maintenance and repair of roads and bridges," a sum of 4.25 lakhs is included for the total replacement of certain temporary bridges. A reduction of 25 per cent., or about 1 lakh, could be made in this sum by continuing to repair these bridges instead of replacing them. We recommend that this economy in immediate expenditure should be effected.

A programme of additional new works to cost 7 lakhs (part of a larger programme to cost 13.63 lakhs) has been put forward, but has not yet been finally authorised, for the present year. We recommend that this programme be postponed, and that the provision for additional new works in the year be confined within the limit of 2 lakhs to provide for any new work of vital necessity.

83. We fully recognise that so severe a restriction of expenditure in this region must disappoint for the present many legitimate hopes for improved accommodation in the services of education, of health, and in the work of government generally. It demands a sacrifice both from the servants of the Government and from the people of the country. It could, indeed, be justified only by sheer financial necessity. But the financial necessities of the Government are great enough not only to justify it, but to make it imperative. The hopes sacrificed are not lost. They are postponed until an improvement in the financial position makes them possible of realisation. In the meanwhile the reduction, however regrettable, will not affect the discharge of the essential functions of Government.

84. Our recommendations imply a general policy of reduction for the present in the activities of the Department. Their adoption will therefore make it possible to effect a substantial reduction in its staff and its cost. We estimate the reduction that should be realisable at 4 lakhs, of which 2 lakhs should be realised in the first year.

Our recommendations under this heading would relieve the budget for the present year of expenditure to the amount of 12.3 lakhs.

#### MUNICIPALITIES.

85. During the year 1923-24 the Property Tax Law was passed providing for a tax of 10 per cent. on the rental value of properties situated within municipal areas. This tax has proved a valuable and increasing source of revenue. In the first instance its net proceeds were small. Previously Municipalities had been permitted to impose a similar tax on their own account and they had paid  $12\frac{1}{2}$  per cent. of the proceeds (and of the net revenues of municipal undertakings) to the Treasury. These contributions were now lost; and in addition it was found necessary to give grants-in-aid to cover the cost of municipal services for which municipal revenues were no longer sufficient. In 1923-24 the net



gain to the Treasury was only Rs.44,000. During 1924-25 it was expected to amount to 12 lakhs. The grants-in-aid to municipalities provided in the budget of that year were 3.1 lakhs.

86. We recognise that special assistance to the municipal revenues was necessary at a moment when their principal income was annexed by the Treasury. But we do not think that it should be allowed to continue indefinitely. The amount of the grant-in-aid is determined after the municipal budgets have been examined on behalf of the Ministry of Interior and the Ministry of Finance. But neither Ministry appears to exercise a complete control over municipal budgets, and we have seen some evidence of an occasional conflict of policy between the two Ministries. So long as a grant-in-aid is the corollary of a deficit, the inducement to keep the deficit alive is irresistible. If the grant-in-aid be eliminated, we should expect to see a more sparing indulgence in expenditure and less generosity in foregoing or reducing tolls, license duties, and other minor sources of municipal revenue. Political favours will then only be possible at the expense of the ratepayer and not of the taxpayer.

87. We consider that the proper way to meet a deficit is to levy a special cess on the property tax in the locality affected. We calculate that such a cess, levied on the property tax generally so as to raise the percentage of charge from 10 to  $12\frac{1}{2}$  would raise the sum necessary to cover the amount of the grant-in-aid, and we recommend that such a cess should be imposed by three annual stages, the first increase taking effect in the current financial year and the grants-in-aid being reduced concurrently. If preferred, the cess might be levied only in those areas where the municipal revenues will not cover the expenditure without it, in which case the round figure of increase suggested above will require modification. The effect of this recommendation should be a saving of 1 lakh in the budget for the current year, rising to 2 lakhs next year and to 3 lakhs the following year. The effect of our recommendation will be that at the end of three years grants-in-aid from general revenues will have definitely ceased, any municipal deficit being thereafter met from the cess.

It is desirable that municipalities should be encouraged to find and foster sources of revenue for themselves. In order to assist them in doing so it will be necessary to delimit, probably by an act of the Legislature, the fields of taxation of the municipalities and the State respectively. Difficulties have already been caused by an overlapping of those fields.

#### TAPU DEPARTMENT.

88. In connection with the question of land revenue, we have given some consideration to the position of the Tapu Department, which is at present attached to the Ministry of Justice. The Tapu Department appears to us to discharge two principal functions: (1) It is concerned with the registration of title, and all

transfers, mortgages, &c., require to be registered if the Courts are to take notice of them. (2) It is concerned with the protection of Government lands and the prevention of encroachments upon them, which are of very frequent occurrence.

In the former capacity it has some natural connection with the Ministry of Justice, but we regard the latter capacity as the more important, and think that it would be an advantage to associate these functions, at any rate, of the Tapu Department with the State Domains Department and to place the joint office under the Ministry of Finance. Possibly a Land Registry, dealing solely with the registration of title and of transactions affecting title, might remain a separate office and the question to which Ministry it should be attached can be determined by considerations of convenience. But the protection of Government lands is a matter of first-rate financial importance, and appears to us to be properly a matter for the Ministry of Finance.

89. The Receipts Statement of the 1924 Budget includes an entry of Rs.50,000 for *Badl al Mithl* (Chapter VI, Vote 27, Article 2). We understand that this represents payment of the value of government land in cases where private persons have encroached upon such land and either planted trees or erected buildings. We are informed that such encroachment, mainly in the form of tree planting, has been very extensive, and that the Government is entitled to claim large sums in respect of it; but that in practice no payment is claimed, except at the instance of the encroacher, who seeks to secure title to the land on which he has encroached. It is eminently desirable that the Government right to secure payment for such encroachment should be enforced whenever possible, and we anticipate that a transfer of this branch of the work of the Tapu Department to the Ministry of Finance would make its enforcement much more frequent. We learn from the Minister of Finance that the problem is not a perfectly straightforward one and that a difficult settlement of obscure questions relating to tribal rights is involved. But we believe that, with a transfer of this work to the Ministry of Finance, an additional revenue averaging, say, from two to three lakhs should be obtainable, and that at the same time, work of permanent value in the prevention of the alienation of valuable Government rights would be performed. We therefore recommend that immediate steps should be taken to carry out this transfer.

90. With regard to the work of registration of title, we are informed that transactions relating to private Waqf properties are not registered, certificates from the Shara' Court being accepted as a substitution for registration. This involves an exemption from registration fees for which we see no justification, and we recommend its abolition. Similarly, we are informed that, for the first registration of "Public Waqf" property, a

preferential fee is charged instead of the normal fee. We see no good reason for this differentiation, which results in a loss of revenue, and we recommend its abolition.

#### SURVEY ORGANISATION.

91. The Tapu Department is provided with a Survey Staff. There is a separate Survey Department attached to the Ministry of Communications and Works (Budget, Chapter X, Section 11). There is also an Irrigation Surveys Department attached to the Irrigation Directorate (Budget, Chapter XB, Section 11). We see no reason why the whole of this work should not be entrusted to a single Survey Department, and we believe that such an arrangement would eliminate a considerable amount of "overlapping" which at present takes place. We have already indicated that we regard a systematic survey programme as a matter of first-rate importance in connection with Land Revenues, and we regard it as a very serious defect in the present arrangements that three survey enterprises should be in progress whose work is imperfectly correlated and unnecessarily expensive. We think that a single Survey Department would do all the work that is necessary and make sure that all survey work is carried out with reference to a single survey programme and on an identical scale, and is of such a nature that it forms an instalment of the general cadastral survey, which we regard as an essential necessity.

92. We accordingly recommend the transfer to the Survey Department of the Ministry of Communications and Works, of the Surveys Department of the Irrigation Directorate, and the survey work of the Tapu Department, the necessary staff for the urban work of the latter Department and also for irrigation survey being kept available for use, as required on these services, by the Ministry of Communications and Works. We think that a saving of half a lakh should be rendered possible by this adjustment, and that a closer correlation of all survey work to a general programme of cadastral survey would be effected.

#### PENSIONS.

93. The total charge on the 'Iraq Budget for 1924-25 in respect of Pensions (Chapter I, Section 11) is 20.16 lakhs, which shows an increase of nearly 4 lakhs on the " preliminary actual " figures for the preceding year. We are informed that the intention of the 'Iraq Government has been, since July, 1922, when the Turkish Civil and Military Pensions Law was re-introduced by a Resolution of the Council of Ministers, to supersede and abolish all extra-legal allowances, and that they have, on the whole, carried out this intention. Prior to that date, under both the British Administration and the Provisional Government, there had been some tendency for pensions to extend to a field more appropriate for unemployment relief; but this tendency has been corrected, and we do not desire to question the allowances now

granted on more or less charitable grounds. Nor do we question the propriety of the payment by the 'Iraq Government of pension in respect of service rendered to the Turkish Government. But the large increase in the figure has led us to enquire whether any undue generosity is shown in the recognition of claims. We find that the date of His Majesty King Faisal's accession (August, 1921) is taken as the date up to which service under the Turkish Government counts for pension from 'Iraq, and that 'Iraqis who have qualified for pension by Turkish service are eligible for 'Iraq pension if they return and apply for pension within eight months of the ratification of the Treaty of Lausanne, that is to say, before April 7th, 1925. The necessary qualification for a pension is birth in 'Iraq, not service in 'Iraq; but the frequency of transfers from one part of the Ottoman Empire to another makes the application of any other criterion difficult. The decision that military service in the late war should count double for pension appears to us to err on the side of liberality; and the same criticism applies to the decision to allow service to the Turkish Government between the date of the Armistice and the accession of King Faisal to be reckoned for pension.

94. The Accountant-General advises us that a very substantial saving could be made by providing for a re-examination as to physical fitness, of persons drawing pension on grounds of disability, and for grants of land in suitable cases in lieu of payment of pensions. We understand that this would call for an amendment of the law. We recommend that the whole subject of the administration of the Pensions Law should be made the subject of examination by a special committee and we suggest that the High Commissioner should be asked to nominate a member of the committee in order that advantage may be taken of the experience of the British Government in pension administration, which would, we think, be of substantial assistance to 'Iraq. The appointment of a special committee was recommended by the Economies Committee of 1922, but we are not aware that effect was given to this recommendation. Any laxity in the administration of the Pension Law is an expensive luxury, and is calculated to exercise a corrupting influence.

We should look for some reduction in the annual charge for pensions, but we realise that much of this can only be realised after the law has been amended. For the present we recommend that the provisions of the law should be strictly observed, and that any extension of them, whether on the strength of resolutions of the Council of Ministers, or by Departmental practice, should be cancelled.

#### POLICE.

95. In 1924-25 the expenditure upon the Police Force was 70.46 lakhs, or 14.7 per cent. of the total budget expenditure, for a force of 2,761 mounted men, 3,124 unmounted men, and 569

officers (6,454 in all) This is a heavy burden, especially if it be remembered that the country maintains also an army of 9,000 men, and 1,159 qolchis, or armed revenue messengers, employed by the Ministry of Finance (800) and the Customs (359).

Due consideration must of course be given to the special circumstances of the country. The land frontiers are long and troubled. In parts there are social differences which are a disturbing factor. A considerable proportion of the population is still nomadic, and difficult to control. In the marshes of the Euphrates, on the fringe of the western desert, and in the northern hills, there are areas that are difficult of access, and inhabited by tribes which have a traditional disregard for the law. In general, the lawlessness inherited from Turkish days has not yet been wholly eradicated by stronger and better government. For all these reasons the maintenance and improvement of civil order must needs for the present be a chief concern of the administration, and involve special burdens.

96. Nevertheless, we see reason to doubt whether the most economic and effective use is being made of the forces of the country which are available to keep the peace. It appears to us that, for reasons of temporary expediency, the police are called upon at times to discharge duties which should properly be discharged by the military. We instance the special force which has been maintained on the Mosul frontier, during the recent period of tension there, at a cost of 1.80 lakhs per annum. The task appears to us to be one that *prima facie* should have been undertaken by the army. It is true that a policeman costs no more than a soldier, although it is the more expensive mounted policeman that is needed, and that the police unit ordinarily employed is smaller than the military unit. Nevertheless it is more economical to make use of the army for such purposes. The substitution of military for police involves no increase in military forces, and it makes it possible to reduce the police forces, or at any rate to avoid a part or the whole of the increase in those forces which is otherwise required as the arm of the law is extended to new areas. We recognise that the employment of military in small scattered posts is unwelcome to military authorities, and for good reasons. Especially in the case of a young army, it interferes with training, and with the cultivation of that *esprit de corps* and discipline which are their chief concern. But under the present financial stress, 'Iraq needs to get whatever immediate return she can from her big expenditure on the army.

97. In addition to the special temporary police force of 100 men in the Mosul area, for which, we are informed, it is proposed to include a provision of 0.3 lakhs for 3 months in the estimates for 1925-26, there are other frontier police posts in the area of about 256 men, costing about 1.8 lakhs per annum, which appear to us to be discharging duties that are properly those of the military. Were all these to be released by the transfer of their

duties to the military, they would be more than adequate to provide for certain demands for new posts that are put forward for the present year. These are in respect of Hamar Lake and Diwaniyah, and are estimated to cost one lakh.

Deducting this requirement of 1 lakh from 2.1 lakhs which might be saved by substitution in the north, it appears that the substitution would effect an economy of 1.1 lakhs in the budget for 1925-26, by the reduction of police forces.

Further requirements that have been put forward, for 1925-26, for police in respect of Amadia, and for intelligence work at Abughar, and estimated to cost 1.6 lakhs, could, in our opinion, more properly be fulfilled by the military, and no provision should be made therefor in police estimates.

We see reason to doubt whether the expenditure of 1.92 lakhs per annum on the Tel Afar camel corps is justified. The substitution of police would effect an economy of 1 lakh. From the point of view of financial policy, the allowances to Shaikhs estimated for in the budget for 1924-25 (Chapter 6, Section 4) at 2.28 lakhs, and re-included this year, are undoubtedly unsound, and should be discontinued. The same must be said of the allowance of 1.12 lakhs for local Shebana (Chapter 6, Section 3), for which police could be substituted at a reduced cost of about .5 lakhs.

98. The suggestions made above would, if adopted in full, result in relieving the budget of 1925-26 of expenditure to the amount of 6.6 lakhs.

We recognise that a decision on these suggestions involves questions of policy that are outside our province. We abstain, therefore, from making final recommendations thereon; but we venture to urge that a committee of the Council of Ministers should be appointed forthwith for the express purpose of considering economies to be effected by the substitution of military for police in suitable cases, and deciding upon the other specific suggestions made in this section.

#### DEFENCE.

99. In considering the prospects of arriving at a balanced budget in 'Iraq, we have necessarily devoted special attention to the expenditure of the Ministry of Defence. This chapter shows a higher figure than any other in the sanctioned estimates, and it is a growing figure. Actual expenditure in 1923-24 was 65 lakhs, in 1924-25 101 lakhs. The reduction of the "Treaty period" from twenty years to four, made by the Protocol of April 30th, 1923, has meant a complete restatement of the problem of defence; and there is no disposition to assume that the problem as restated can be solved without further increases in expenditure.

We are not competent to express an opinion as to the military forces and technical equipment necessary for the defence of 'Iraq. During the period of our enquiry the Secretaries of State for the



Colonies and for Air have made a personal visit to 'Iraq, and have arrived, on behalf of His Majesty's Government, at an understanding with the 'Iraq Government, as to the military programme which will be carried out, and the financial assistance which His Majesty's Government will contribute towards it. We have taken the programme prescribed and the assistance promised as two of the data from which our enquiry makes its start, and have sought to discover what it will cost 'Iraq to conform to the programme.

100. We find that the actual expenditure of the Ministry of Defence for the year 1924-25 was approximately 101 lakhs, against an estimate of 118; but there was a carry-over of about 12 lakhs, representing a liability for stores on order, so that the true cost of the Army for the year may be put at 113 lakhs. In 1924-25 two new Infantry Battalions, (the fifth and sixth,) were started. In 1925-26 provision must be made for the running costs of these units for twelve months, instead of for shorter periods. On the other hand, the budget is relieved of the heavy initial charges in respect of them. The approved programme involves the commencement of another (the seventh) Battalion in September, and provision must be made for its initial charges and an appropriate proportion of running costs. There is to be a considerable addition to the number of British Officers attached to the 'Iraq Army, some in an instructional, some in an executive capacity. There is a "carry-over" from 1924-25 which seems to us to be abnormally large, and as we do not anticipate as large a one from 1925-26 into the following year, this means an extra weight on the budget.

We think it prudent also to assume a large increase in the charge for rations for man and horse. On the other hand, the British Government will make a contribution of 12 lakhs towards the expenditure of the year on the 'Iraq Army. Taking all these facts into consideration, we come to the conclusion that 'Iraq can carry out the approved programme at a cost in the year 1925-26 of 147 lakhs, or, allowing for the British subsidy, 135 lakhs.

101. We do not ignore the fact that the figure at which we have arrived is a much lower one than that formulated by the Ministry of Defence as expressing their requirements. The Ministry asked for a provision of no less than 190 lakhs, and this before the formation of a new Battalion during the year was contemplated. We think that the Ministry of Defence has been affected by the habit of overestimating, to which we make reference hereafter (paragraph 106). But this will not account for the whole difference between their original figure (which was subsequently reduced) and ours. The reason for this difference is to be found in the circumstance that we have felt it our duty to rule out proposals for expenditure which are useful, and even perhaps ultimately inevitable, if they cannot be shown to be here and



now essential for compliance with the programme. We recognise that, if our recommendation is accepted, it will mean the disappointment, or at least the postponement, of hopes legitimately framed by the military authorities, and possibly an aggravation of the burden of defence expenditure in later years. But in view of the retrenchment and sacrifice of praiseworthy ambitions which we have found ourselves compelled to recommend in the case of other useful public services, we have felt that for the present only so much money must be expended on defence as is absolutely necessary to comply with the approved programme.

102. In 1926-27 provision must be made for the running costs of the Seventh Battalion for a full year. On the other hand the Budget will be relieved of the initial charges for that Battalion. Further, there will be an increase in the number of British officers employed, but the contribution of His Majesty's Government is to be increased to 18 lakhs. Allowing for these differences, we estimate the full cost of the defence programme for 1926-27 at 143 lakhs and the net cost, after deduction of the British grant-in-aid, at 125 lakhs.

#### OTTOMAN PUBLIC DEBT.

103. Special reference is made in our terms of reference to 'Iraq's liability in respect of the Ottoman Public Debt and we have carefully considered it. We are informed that the contributive share of 'Iraq (including the Mosul Vilayet) as determined by the Debt Council is as follows, in lakhs of rupees :—

1924-25	...	...	...	...	28.96
1925-26	...	...	...	...	76.13
1926-27	...	...	...	...	68.63
1927-28	...	...	...	...	66.76
1928-29	...	...	...	...	55.16
1929-30	...	...	...	...	55.16
1930-31	...	...	...	...	53.74

Thereafter there is a gradual reduction as loans are paid off, with one big drop of 9.75 lakhs after 1944-45 on the termination of the annuity payable in respect of the arrear period from March 1st, 1920, to August 5th, 1924.

'Iraq entered an appeal against the determination of her share by the Debt Council. The appeal has been heard and judgment has been given by the Arbitrator. At the time of writing we have not seen the details of his award; but we understand that he has decided that the question of the currencies in which the contributive parts in respect of various loans are payable falls outside his competence, and that consequently it is not possible to give an exact figure of 'Iraq's liability. We offer the opinion, with all reserve, that the following table might be taken as a reasonable estimate of 'Iraq's "Treaty liability."

					lakhs of rupees.
1924-25	...	...	...	...	23.24
1925-26	...	...	...	...	57.01
1926-27	...	...	...	...	49.66
1927-28	...	...	...	...	47.11
1928-29	...	...	...	...	36.56
1929-30	...	...	...	...	36.56
1930-31	...	...	...	...	36.39

Thereafter, gradual reductions, with a special "big drop" of, say, 7 lakhs after 1944-45.

104. It should be obvious that no authority attaches to any opinion of ours as to the sums properly payable, and that we are not qualified to make any admission of liability or offer of payment on behalf of 'Iraq. But we think it well to make an express statement to that effect. We have used the expression "Treaty liability"; but we volunteer no confident opinion as to the meaning or effect of the relevant provisions of the Treaty of Lausanne. Tentatively, we suggest that there is no precise sum the payment of which by 'Iraq can be described as a treaty liability, and that there is no prescribed machinery by which such a figure can be determined. The intention of the framers of the Treaty of Lausanne that 'Iraq should pay a contributive share in respect of the Ottoman Public Debt is apparent, and 'Iraq has expressly recognised her liability in this respect in Article XVII of the Financial Agreement. We do not for a moment put forward the idea that the liability should be repudiated or evaded, though the history of the discharges of analogous liabilities by other States is suggestive. But we think that the figure at which it should be assessed in any particular currency and the manner in which it should be discharged can only be determined by negotiation between 'Iraq, as one of the debtors, and the Debt Council, as representing the creditors, and we recommend that such negotiations should be taken in hand at an early date. In the conduct of the negotiations we think that His Majesty's Government, with their wider financial experience, should lend assistance to 'Iraq. We do not think that they need feel under any obligation to regard themselves as trustees for the bondholders.

Pending the successful conclusion of the negotiations and the consequent determination of a figure for 'Iraq's liability, we do not advise that any action should be taken to give security to the Debt Council; for the giving of security appears to us to presuppose a liability already determined.

105. In our forecast of the 'Iraq Budgets of 1925-26 and future years we have assumed that the amounts to which 'Iraq will be liable in respect of this debt charge will be those amounts which we have specified in para. 103 above as a reasonable estimate of the liability. There is much uncertainty; but it appears to us that, whilst it is needless at present to allow for more, it would be imprudent to allow for less. We feel certain that the 'Iraqi

nation is anxious not to incur any charge of treating its international obligations lightly, and we regard the payment of a share within its means towards the service of the Ottoman Public Debt as such an obligation. Moreover, we think that the frank acceptance and full discharge of such a liability will be a real enhancement to the credit of 'Iraq when the time comes for her to issue loans and so raise funds for those capital works which the country needs, the cost of which cannot be met from revenue.

#### RELIABILITY OF ESTIMATES.

106. Before summarising the effect of our recommendations upon the estimates for 1925-26, we must refer to the degree of accuracy attributable to those estimates.

In the past the estimates, both of revenue and of expenditure, contained in the budget have not shown a very satisfactory degree of correspondence with actual results. In the past four years, estimates of expenditure have shown an average variation of 7 per cent. from actual results, and a maximum variation of 13.4 per cent. (1924-25). Estimates of revenue have shown an average variation of 7.7 per cent., and a maximum variation of 18.3 per cent. (1921-22). In these figures due allowance is made for all large heads of expenditure, such as the Ottoman Public Debt charge, which were estimated for, but had not subsequently to be met.

The variation has no doubt been partly the result of inevitable lack of precedents in a new administration. But in part also it has been the result of intentional over-estimating by the spending departments, to make things comfortable, and under the mistaken impression that there is virtue in a substantial under-spending on a vote. That impression should be corrected. The best service that a department can render to economy is to make its estimates accord as closely as possible with the facts of the case. Habitual over-estimation of expenditure is the worst of all nuisances to those responsible for general financial policy.

107. In view of the variations from actual results which estimates have shown in past years, we consider that, to obtain a true view of the outlook, a correction must be applied to the preliminary estimates of the departments for 1925-26. This correction should be a diminution of 4 per cent. in anticipated expenditure, for over-estimation; and an increase of 1 per cent. in anticipated revenue, for under-estimation.

#### Effect of Recommendations.

108. We estimate the total reduction in expenditure to be effected by our recommendations in round numbers at 50 lakhs in 1925-26, and 7 lakhs more in 1926-27. The total increase that they will effect in revenue we estimate in round numbers at 40 lakhs in 1925-26, and 9 lakhs more in 1926-27. But time will be needed for their consideration, and it may be expected that some

two months of the financial year 1925-26 will have elapsed before they begin to take effect. Allowance must be made for this in estimating their effect upon the finances of the current year. In the summary which follows we have accordingly reduced these amounts of 50 lakhs and 40 lakhs for 1925-26, by 4 lakhs and 6 lakhs respectively, to 46 lakhs and 34 lakhs. The reductions are based upon the time that will probably be lost, and the headings affected.

109. We proceed to show what should in our opinion be the position as regards the budget for 1925-26, on the assumption that all our recommendations are adopted and put into force without delay.

(In round numbers. Lakhs of rupees.)

#### EXPENDITURE.

Provisional departmental proposals as submitted to us (excluding Defence)	...	...	...	...	418(*)
<i>Less</i>					
Reductions to be effected by our proposals	...				46
					<hr/> 372
<i>Add</i>					
Defence (allowing for subsidy)	...	...	...	...	135
Ottoman Public Debt	...	...	...	...	80.25
Sulaimani deficit	...	...	...	...	3(†)
					<hr/> 590.25
<i>Less</i>					
3 per cent. for overestimation	...	...	...	...	18
					<hr/> 572.25
<i>Total Expenditure</i>	...	...	...	...	572.25

#### REVENUE.

Provisional departmental estimates as submitted to us	...	...	...	...	484
<i>Add</i>					
Increases to be effected by our proposals...	...				34
					<hr/> 518
<i>Add</i>					
1 per cent. for underestimation	...	...	...	...	5
					<hr/> 523
<i>Total Revenue</i>	...	...	...	...	523
<i>Total Expenditure as above</i>	...	...	...	...	572.25
					<hr/> 49.25
<i>Deficit</i>	...	...	...	...	49.25

\* No provision is made for debt charge on the "Transferred assets" (see paragraph 15). Programmes of Fresh works for Irrigation, P.W.D. and other departments are included.

† The budget for the Sulaimani district, where military operations are in progress, is separated from that of the rest of the Kingdom.

## WAYS AND MEANS.

110. On March 31st, 1925, as a result of the surpluses of the two preceding years, the Treasury had a balance in hand of 46.47 lakhs made up as follows :

In Treasuries and Banks (Current A/c)	...	31.47
With Banks on short-term deposit	... ..	15.00
		—
		46.47

If the readjustment is made in the Account Current with His Majesty's Government which we have recommended in the Appendix (para. I) in connection with the payment to the Disposals and Liquidation Commission for railway stores, the cash resources of the Treasury will be increased by 14.25 lakhs, and the total figure at the opening of the current financial year may be taken as 60.72 lakhs. We have, however, found it necessary to recommend that the 'Iraq Government should make an immediate advance by way of loan to the railway administration of 15 lakhs to meet expenditure which cannot be postponed without imperilling the existence of the undertaking (para. 123). If this recommendation is accepted the opening balance will be reduced to 45.72 lakhs.

111. About 25 lakhs is required by the Government under present conditions as " working capital " for turnover. This may seem a large amount in proportion to the annual revenue and expenditure, but it should be borne in mind that the Government has not the advantage of commanding banking credits on the security of Ways and Means in anticipation of revenue.

Deducting the 25 lakhs for working capital from the 45.72 lakhs of opening balance, it appears that there is a surplus of about 20 lakhs in the hands of the Government which could be used to help to cover the deficit in 1925-26. If our recommendations are adopted, and if the finances for the year show some result such as that which we have forecasted in para. 109 above, the use of this surplus would have an important effect in reducing the deficit of 49.25 lakhs. These suppositions, however, involve a large element of conjecture, and it would be imprudent to reduce the cash balance of the State until experience has shown whether those conjectures are justified by events. We recommend, therefore, that no allocations should be made out of balances in hand to any specific purpose, other than the provision of the 15 lakhs already mentioned for the railways, unless and until actual experience of the relation between receipts and expenditure in 1925-26 has shown that such allocations are justified.

**C.—Railways.**

112. 'Iraq is a land of long distances and a scattered population. Improved transport is a first essential for any improvement in economic conditions and in revenue. As already observed, the retention of the transit trade of the country to and from Persia against possible rival routes is a vital interest. For these reasons, the welfare of its railway system is of the utmost importance to its general prosperity and to its budget. We believe, therefore, that it is strictly relevant to the terms of our reference that we should take the position of the railways into consideration and make recommendations thereon.

113. The Railways, with the exception of the German-built line from Baghdad to Samarra, were built by the British Government during and after the war, and they remain the property of that Government. Since April 1st, 1923, under Article VIII of the Financial Agreement, the Government of 'Iraq has been responsible for their management and administration. During that period the Government of 'Iraq has advanced to the Railways 34.2 lakhs for urgently needed extensions and improvements. There is some uncertainty, and the possibility of a difference of opinion, as to which government would be responsible for a deficit upon the working of the system, and as to the ownership of improvements made during the administration of the 'Iraq Government.

114. The present physical condition of the lines is far from satisfactory. They were hastily built in war time, and much of the material used in their construction was old when it was used. The numerous bridges are of temporary construction, and are largely made of old material. The buildings are also of a temporary nature. Many of the locomotives and much of the rolling stock were old when first bought for the service of the lines. The system has been subjected to severe wear and tear during years of military operations. There is urgent need for the replacement of bridges, and for the renewal of permanent way, of rolling stock and of locomotives. Unless such renewals and replacements are made, the lines will become unsafe and unworkable within two or three years. Owing to circumstances into which it is unnecessary for us to enter, not only have no renewals or replacements at all proportionate to requirements been made since the opening of the lines, but no reserve has been accumulated out of which their cost can be met. The Director of Railways advises us that some 72 lakhs will be required for these purposes during the next four years if the railways are not to close down.

115. The lines, constructed in the first place for military purposes, were left in many respects incomplete for ordinary purposes, even on the basis of their present extension. To put the system upon a reasonably economic basis, capital expenditure will be required in the immediate future for the completion of existing works. The sum required for this purpose will be some 40.6 lakhs.

Certain further extensions are eminently desirable, for the economic development of the country, for the preservation of the Persian transit trade, and for the consequent improvement of the public revenues. In particular may be mentioned the completion of the line to Mosul, along the left bank of the Tigris, via Kirkuk, a line already begun with the funds recently borrowed from the 'Iraq Government. This line will serve the richest grain-producing area of the country, and render it possible to discontinue the use of the standard gauge line from Baghdad to Shergat, which should lead to substantial economies in working. For extensions of this nature, desirable from the point of view both of the budget of the railways and that of the national Government, there will be required in the course of the next four years about 110 lakhs.

116. Adding interest charges to the above figures of capital required, and a provision for working capital, and deducting the estimated surplus on the working of the system (a surplus the realisation of which depends on the outlay of the capital needed), we are of opinion that the railways will require some 180 lakhs of capital in the course of the next four years, of which some 80 lakhs will be vitally necessary if the railways are to continue working.

117. We have considered the present administration of the line, and we are of opinion that it is as economic as circumstances permit. Although considerable reductions in staff have already been effected, the number of employees is still unduly large; but it has to be recognised that their general standard of training and efficiency is low, in a country in which a railway is a novelty. Further substantial reductions in staff can only be expected as the standard of efficiency is improved by training and experience. Rates are not high on any relative standard, but they are higher than the Indian rates, and probably as high as the traffic will bear. Railway transport is subject to effective competition from motors and, between Baghdad and Basrah, from river steamers. Any increase of burdens on the Persian transport trade requires the utmost caution, in view of a possible diversion of that trade to other routes. As regards the volume of traffic, although this will no doubt reflect any improvement in the general prosperity of the country, no effective increase can be hoped for before the extensions referred to have been made. There is therefore no prospect of any substantial improvement in the profit-earning capacity of the system under present conditions.

118. The working of the system has shown the following results during the last three years :—

Year.	Surplus.
1922-23      ...      ...      ...	3.35
1923-24      ...      ...      ...	7.78
1924-25      ...      ...      ...	7.50 (estimated).

Since no provision was being made for replacement or removals of bridges or permanent way, of locomotives or rolling stock, or



for essential works of completion, these apparent surpluses did not in fact represent anything which could have been legitimately dealt with as distributable profit by any business managed on sound principles of finance. In the year 1922-23, the sum of 3.35 lakhs was indeed paid over to the British Government as earnings of the railways; but we are unable to reconcile this payment with the true financial position.

Taking into consideration all these circumstances relating to the past, present and future of the system, we are compelled to the conclusion that there is no prospect that it will yield any return to the British Government, unless and until the additional capital has been provided, and time has been given for its employment to bear fruit. Further, it is clear from our report on the general finances of the 'Iraq Government that that government is not in a position to make any capital payment, or to bear the charges of any debt to the British Government, in respect of a transfer of the ownership in the railways.

119. There is therefore no advantage to the British Government in the continuance of the present situation. On the other hand, that situation is very adverse to the interest of the railways and to the economic prospects of 'Iraq. To raise the capital required must in any case be a difficult task. The task is impossible as long as the legal status of the railways is subject to the present obscurities and as long as the claims of British ownership weight the credit of the railways with something in the nature of a prior charge for their whole value. For these reasons we recommend that an immediate settlement of the railways be made in the following manner :—

- (A) The ownership of the railway system should be transferred to a special body, having legal personality (which for convenience sake we call the Corporation), to be constituted by a special statute of the 'Iraq legislature.
- (B) The Corporation should thus become the owners of the system, and responsible for its administration and management, with full powers to charge, lease, or sell its assets, or to make arrangements for delegating management, subject to the approval of the Government of 'Iraq.
- (C) The capital stock of the Corporation should be 500 lakhs, divided into 250 Preferred stock, which should be the property of the British Government, and 250 deferred stock, which should be the property of the 'Iraq Government.\* The 'Iraq Government should have the option to buy the British Government's stock at par.
- (D) The Board of the Corporation should consist of three Directors appointed by the Government of 'Iraq and

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\* See para. 121 hereafter as to minor adjustments.

two appointed by the British Government. We recommend that there should thus be a majority of Directors appointed by the Government of 'Iraq, in the belief that it is in accordance with the general policy of the British Government towards 'Iraq that the affairs of the country should be under its own general control. We recommend that during the Treaty period the appointment of the General Manager of the lines should be subject to the approval of the British Directors. The British Directors should remain as long as any stock of the Corporation remains the property of the British Government.

The figure of 250 lakhs has been fixed on to represent the interest of the British Government, as a fair valuation of the property of the British Government in the railways, in view of the cost of construction, and the circumstances that no replacements or renewals have been effected or provided for by the accumulation of reserves. Apart from that figure, and the option of the 'Iraq Government to purchase thereat, we do not consider that the proportions suggested for the stock of the Corporation are of the essence of the scheme.

120. We desire to emphasise the importance of the transfer of the ownership and management of the railways to a statutory body, to ensure their independent management according to sound business principles, to effect a complete separation of the Railway Budget from the Budget of the State, and, whilst regularising the status of the system, to free its assets from undefined obligations. We consider this to be an essential preliminary to the raising of the capital which is vitally necessary if the railways are to continue in existence as a going concern.

121. On subsidiary questions, we recommend that on the institution of the Corporation the debt of the railways to the Government of 'Iraq in respect of the 34·2 lakhs advanced for extensions should be given equal rank with the interests of the British Government. For instance, if our suggestion be adopted that the interests of the British Government should be represented by 250 Preferred Stock, then the 'Iraq Government should receive (in addition to the Deferred Stock), 34·2 of the Preferred Stock, making 284·2 of such stock in all.

There is an outstanding liability estimated at some 20 lakhs in respect of unascertained claims from owners in respect of lands occupied for the use of the lines when they were constructed. We consider that this is the liability of the British Government as owner of the lines, and we have taken it into consideration in arriving at our estimate of the value of the interest of the British Government in the lines. If our recommendations be adopted, this liability will become that of the Corporation. Under present conditions we are of opinion that it is for the British Government as owners to meet the liability. The Corporation will be liable for payment to the British Government for certain railway stores (*see Appendix, para. I*).

122. The terms and conditions of the contracts with the British officers engaged upon the Railways are at present in an eminently unsatisfactory state of uncertainty. These can be regulated upon the institution of the Corporation by the making of fresh contracts between the Corporation and the officers.

123. The settlement which we recommend does not, of course, present any solution of the problem how the capital required for the railways is to be obtained. It does no more than clear the ground of obscurities and unrealities. In the meantime, although larger requirements may await for a short time, the railways are in immediate need of a small amount of capital, lacking which they will not be able to continue working. The need is, according to our estimate, for a minimum of 15 lakhs, of which 3.0 lakhs is for bridge works immediately necessary, and the remainder is for working capital. We are of opinion that this amount can and should be advanced by the Government of 'Iraq from balances in hand, and that on the organisation of the Corporation the amount thus advanced should be dealt with as a debenture debt having priority over other liabilities of the Corporation. We make this recommendation on the principle that this amount is necessary to save the railways from closing down, and that capital could only be obtained under such conditions by any business undertaking on the condition that the new money was to have priority over existing charges.

In the event of this amount of 15 lakhs not being provided by the Government of 'Iraq, it might be possible that an arrangement should be made with the Bankers to the Government for credit to that amount, on the security of a guarantee from the 'Iraq Government. This would necessarily be an expensive arrangement, and we recommend its consideration only in the last resort.

### Conclusion.

124. We desire to express our thanks for the assistance which we have received in our investigation from the High Commissioner and his staff, from the Ministers of 'Iraq and the staff of the Government, in particular that of the Ministry of Finance, and from the representatives of Commerce and Industry who have put their time and information at our disposal.

We have been encouraged to find in all these quarters a recognition that common interests are at stake and common ends in view.

The services of Mr. J. Parlby, the Auditor-General, who has been attached to our Mission as Secretary, have been of much value to us, and we desire to express our appreciation of them.

E. HILTON YOUNG.

R. V. VERNON.

BAGHDAD,  
25th April, 1925.

## APPENDIX.

### . FINANCIAL AGREEMENT.

In connection with the Financial Agreement, the Ministry of Finance has drawn our attention to certain matters which are under discussion between His Britannic Majesty's Government and the 'Iraq Government, and, as these matters necessarily affect the present financial position of 'Iraq and the prospect of future financial equilibrium, we have found it necessary to take them into consideration and to make them the subject of recommendations.

I. The first question relates to the valuation of the capital assets, transferred by His Britannic Majesty's Government to 'Iraq, under Articles V and VI of the Agreement. We were informed that the High Commissioner had recommended to His Majesty's Government a reduction by 18 lakhs of the figure of Rs.94,09,540 specified in Article V, and that the Colonial Office and the Treasury were prepared to agree to such a reduction, conditionally on certain arrangements being accepted and carried out for the liquidation of certain other claims of His Majesty's Government against 'Iraq. In this connection a question connected with the 'Iraq Railways has arisen. It is claimed on behalf of 'Iraq that a sum of approximately 14½ lakhs is due to 'Iraq from His Majesty's Government to balance the " Account Current," as on 31st March, 1925. It has been contended, on behalf of His Majesty's Government, that as against this sum a payment made to settle a claim of the Disposals and Liquidation Commission against the 'Iraq Railways on account of transferred stores must be taken into consideration; that the payment was properly made on account of 'Iraq; and that no repayment is due. We note that the 'Iraq Railways " remain the property of His Britannic Majesty's Government " (Financial Agreement, Article VIII), and that the 'Iraq Government have accepted the responsibility for their administration and management. The payment made to the Disposals and Liquidation Commission in respect of consumable stores represents the value of stores consumed, or presumed to have been consumed, by the railway management. It appears to us to be a payment which should be met from Railway Funds (as distinct from the 'Iraq Treasury), precedent to the utilisation for other purposes of such Railway Funds as may become available. It being agreed that the finance of the railways is to be regarded as a " watertight compartment " (see note of Interdepartmental Conference of March 4th, 1925), we do not consider that it is a proper claim against 'Iraq. We therefore recommend that, for the purposes of the " Account Current " between His Majesty's Government and the Government of 'Iraq, the payment made to the Disposals and Liquidation Commission should not be treated as a payment made on account of 'Iraq, and that if it has been so treated a

like amount should now be credited by His Majesty's Government to the Government of 'Iraq.

II. On general grounds, we should not have been disposed to recommend that the figure specified in Article V of the Financial Agreement as the value of the "transferred assets" should be reduced by more than the amount of 18 lakhs, by which we understand that His Majesty's Government are already agreed to reduce it. But we have found it necessary to consider the annuity payment, to which His Majesty's Government are entitled under the Agreement, in connection with the other financial obligations resting upon 'Iraq. We find that, if all reasonable efforts are made to increase the revenue by the imposition of burdens within the capacity of the country and the improvement of the machinery for collecting it, and if all expenditure not corresponding to necessary public services is eliminated from the budget, there is no immediate prospect of 'Iraq being able to meet in full the payments in respect of the Ottoman Public Debt due from her under the Treaty of Lausanne, of which His Majesty's Government are a signatory. We do not think it possible that His Majesty's Government should exact, or accept, from 'Iraq a payment which in fact represents a debt charge, while 'Iraq leaves a clear international obligation in respect of debt charges unfulfilled. We therefore consider it inevitable that His Majesty's Government should consent to forgo payment of the annuity under Article VII of the Agreement for so long as the debt annuity payable by 'Iraq under the Treaty of Lausanne is not paid in full. We think that the retention of a figure of a "book debt," of the discharge of which within any reasonable time there is no prospect, is unwise. It is unwise from the financial standpoint of Great Britain, because it involves taking credit for something which is not a real asset. It is unwise from the point of view of the international relations of Great Britain and 'Iraq, because it keeps alive a possible source of further differences and misunderstanding. We therefore recommend that His Majesty's Government should inform the 'Iraq Government that they forgo any claim to any repayment by 'Iraq of any part of the value of any of the works of public utility covered by Article V of the Financial Agreement.

III. Article VII of the Financial Agreement provides that the sum specified in Articles V and VI shall constitute a debt to be repaid by means of a terminable annuity, calculated so as to repay the capital sum, with interest at 5 per cent. per annum, within twenty years from the conclusion of the Agreement; and that the annuity repayments required under the Article shall be a first charge on the general revenues of 'Iraq, and no prior charge shall be set up without the consent of His Britannic Majesty's Government.

Having regard to the obligation imposed on 'Iraq by the Treaty of Lausanne for the payment of a contributive share in respect of the Ottoman Public Debt, we consider that His

Majesty's Government must consent to a prior charge on the general revenues of 'Iraq being set up in respect of such payment. In that case the annuity payments required under this Article can no longer be a first charge on the general revenues of 'Iraq. But, as we have indicated in the preceding paragraph, we recommend that His Majesty's Government should consent to forgo these payments.

IV. It has been represented to us that Article VIII of the Financial Agreement, dealing with the 'Iraq Railways, is vague and unsatisfactory, and that it should be made clear that no financial responsibility rests on the 'Iraq Treasury in connection with the railways. As indicated under I above, we understand that His Majesty's Government have already agreed that the finance of the railways is to be treated as "a watertight compartment." We have submitted recommendations (para. 119 of Report) for a final settlement of the question of the ownership of the railways, and we consider it unnecessary to enter into a discussion of the provisions of Article VIII independently of those recommendations.

V. Exception has been taken, on behalf of the 'Iraq Government, to the provisions of Article XIII which bind that Government to pay one-half of the cost of a service (salaries and expenses of the High Commissioner and his staff) over which it can exercise no control. We consider that the relation in which the High Commissioner stands towards the 'Iraq Government renders the exercise of any control by the latter over the staff and office arrangements of the former quite impracticable. But we think that the 'Iraq Government may reasonably take some exception to an arrangement which leaves them subject to a liability outside their control and indefinite in amount. We therefore recommend that His Majesty's Government should undertake to keep the net amount payable by the 'Iraq Government in any year within the amount provided in the Estimates for the current financial year.

VI. The Iraq Government has raised an objection to that part of Article XIV of the Financial Agreement which exempts from customs duties "all articles imported by or consigned to the Navy, Army, and Air Force Institute or any other official canteen for His Britannic Majesty's Forces." There is a widespread belief that advantage of the privilege of exemption from Customs duties is enjoyed indirectly by many civilians not entitled to it, and that there are serious abuses in connection with trading in duty-free imports, especially of liquor and tobacco. The existence of this privilege undoubtedly sets serious difficulties in the way of the efficient administration of the Customs and Excise system, and the continuance among members and officials of the 'Iraq Government and among the general community of a suspicion that the privilege is being systematically abused constitutes a prejudice to the maintenance of satisfactory relations between



the two Governments. We recommend that the privilege of free importation by the Institute and Canteens should be surrendered on the 'Iraq Government undertaking to make to the Air Officer Commanding an annual payment to provide for the distribution of a "duty allowance" among the *personnel* to whom the privilege at present properly attaches. We recommend that immediate steps should be taken to arrive at an agreed figure in consultation with the Air Force authorities and the Director of Customs and Excise, the principle of substituting a "duty allowance" for the privilege of exemption being definitely accepted, and discussion being limited to the amount of the annual payment to be made.

VII. Article XIV of the Military Agreement contains a provision with regard to the Wireless Telegraph Service to which the 'Iraq Government offer objection. It provides that no messages other than on British Government service shall be transmitted by the British Wireless system "except by agreement with the 'Iraq Government, which agreement shall provide for compensation for loss of such traffic by the 'Iraq Government's Department of Posts and Telegraphs" and, further, that "any compensation which may be due to the 'Iraq Government shall be in the form of a reduction of the debt due by the 'Iraq Government in respect of the Telegraphs system transferred to it by His Britannic Majesty's Government." The 'Iraq Government contend that any such payment should be made by way of cash payment or alternatively by reduction of the sum payable for the service of the debt. We do not attach any great importance to this matter, especially as no such agreement as that which the Article contemplates has been concluded. But we think that in principle it is right that compensation for loss of revenue should take the form of a cash payment, and not of a debt reduction, and we recommend that, if and when such an agreement as that contemplated by the Article is made, it should provide accordingly.

VIII. It was represented to us that compensation was properly payable to the 'Iraq Government by His Majesty's Government for the loss of revenue resulting from the immunity from taxation on their date gardens in Basrah promised to the Shaikhs of Koweit and Mohammerah by Colonel Knox on behalf of His Majesty's Government at a date prior to the landing of British Forces at Basrah. We were informed that the revenue thus sacrificed amounted to Rs. 87,000 per annum, and that the amount had since been increased, by a change in the rate of taxation, to Rs. 1,20,000. We recognise that the promise of immunity was made at a time when there was no expectation that the present State of 'Iraq would come into existence, and when it was probably contemplated that the resulting loss of revenue would be at the expense of a territory under direct British administration. But the promise was given for no reason except to secure the co-operation of the shaikhs in military operations

against the Ottoman Empire; the creation of the State of 'Iraq has been the direct consequence of those operations; and we do not think that 'Iraq is entitled to demand that one particular continuing item of cost, or rather of loss of revenue, should be made a charge upon Great Britain. We recommend that the Government of 'Iraq should withdraw any claim in this connection.

IX. It has been represented to us that the electric power undertakings at Baghdad and Basrah are charging unduly high rates and earning unreasonable profits; that the Government of 'Iraq should be allowed to take over these undertakings; but that in any case they should not enjoy duty-free import of materials, or free enjoyment of Government land. We understand that, as far as Baghdad is concerned, the matter is complicated by the fact that an offer for the plant has been made by a British Company, which is the present owner of the pre-war "Shahbandar concession" for an electric light, power, and tramway enterprise in Baghdad; that their offer is necessarily contingent on the conclusion of satisfactory arrangements with the 'Iraq Government regarding the concession; and that negotiations with regard to such arrangements have been extremely protracted. We recommend that the 'Iraq Government should make an earnest endeavour to bring the negotiations to a satisfactory conclusion, in order that His Majesty's Government may finally dispose of the plant to the Company which appears to have a claim to a concession for such an undertaking. It is very desirable that any impression that there is undue profiteering by His Majesty's Government at the expense of public services or the civil community should be dispelled.

We recommend that a similar disposal of the plant at Basrah should be effected as soon as possible. We consider it not unreasonable that His Majesty's Government should insist on receiving a cash payment for the plant, and the 'Iraq Government does not appear to us to be in a position to make such a payment.